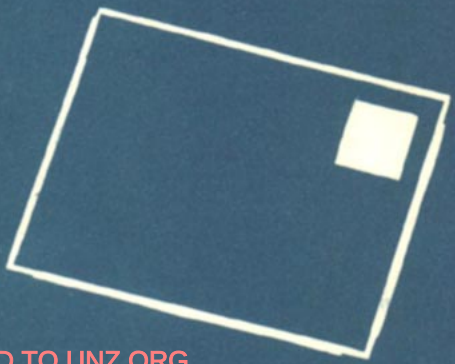
the Freeman

Ideas on Liberty

JANUARY 1970



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PRIVATE MAIL
could be a public boon

MELVIN D. BARGER

THE POSTMAN is figuratively ringing twice in a number of American cities these days. One of the rings could be sweet music to citizens angered by the growing problems of the Federal postal system.

The new courier on the scene is the Independent Postal System of America, making its appointed rounds now in many cities and soon to open services in more. IPSA, established in February, 1968, is an upstart in the communications field and an infant among corporations. But it has made a sensational start and has all the earmarks — or perhaps postmarks — of being the right idea at the right time.

One man who obviously thinks so is its founder, 42-year-old Tom Murray, who already pictures IPSA jetting ahead into the billion-dollar class. Murray, a restless, entrepreneurial type, could be accused of exaggeration, except for several interesting facts. One, IPSA has already landed enough sales to produce $1 million in profits during its first year of operation. Two, the potential market is there; postal services run into billions and could go much higher in the years ahead. Three, public opinion is turning bitterly against the U.S. Post Office Department, and the times are right for constructive change.

The last item may turn out to be a matter of considerable importance to IPSA's future. Until a few years ago, the public accepted the government postal monopoly as a fact of life; some people even seemed to believe that only government had the competence to

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carry mail. A suggestion that private corporations could handle postal services with greater efficiency and economy was often hooted down; it was like suggesting that a private company take over the Washington Monument or the U.S. Coast Guard.

But a number of things have made a private mail system more acceptable in the public mind. Postal service seems to be deteriorating, or at least not keeping up with the noticeable advances in other services (such as the telephone system). The yearly postal deficits are always well-publicized, causing people to wonder frequently "why the Post Office can't at least pay its own way." There have also been the annoying rate increases and raging legislative battles over proposed rate boosts for different classes of mail. Attempts to raise third-class rates have enraged business mailers, and efforts to change the admittedly low rates for publishers has probably contributed something to the bad press the Post Office has been getting.

There may also be some disillusionment over the frequent crusades to make the Post Office more businesslike, an effort that seems to be revived with each change of administration. There was honest hope that Arthur E. Summerfield, a successful Michigan businessman, might succeed in this when he joined the Cabinet in 1953 as President Eisenhower's Postmaster General. Summerfield did make some needed improvements in using private capital to provide for new post office building construction, but he also incurred the hostility of the postal unions and faced considerable political opposition to many of his plans. Summerfield's reign at the Post Office proved that the Department's problems couldn't be solved simply by putting an astute businessman in the head chair.

The Kappel Proposal

The latest ploy in the attempt to buck up the faltering Post Office was the proposal by the Kappel Commission to put the Department under a government corporation. Mr. Kappel, the retired board chairman of the giant American Telephone and Telegraph Company, was doubtlessly chosen to study the Post Office because of his own impressive career in a related communications field. The Kappel proposal now has the endorsement and active backing of President Nixon, but it faces stiff opposition in Congress and from the postal unions. Right now the Kappel plan appears dead. If organized along lines suggested by Mr. Kappel, the Post Office might conceivably become better

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administered, with less interference from Congress and more control over its own operations. However, the Kappel recommendation is essentially an attempt to remedy the shortcomings of a socialistic enterprise by converting it to another organizational form; it still rests on the delusion that socialism can be made to work if only the right combination of management and organization can be found.

The question of private ownership of the Post Office did get an airing by Mr. Kappel, who dismissed the idea of selling the Post Office because, with the Post Office's deficit, liabilities, and investment needs, "you couldn't sell it to anybody."

The fact that the question of "selling" the Post Office was even asked shows that there's growing interest in a private postal system. Mr. Kappel's answer revealed the philosophical limitations of a man who has spent his own lifetime in a monopolistic enterprise, albeit a highly successful one. He did not seem to be thinking of the possibility that postal services could be supplied by new organizations, not just the one now in existence. He apparently could not bring himself to the point of proposing that anybody ought to be allowed to carry any class of mail, that mail deliveries should not be a legal monopoly of either a public or a private organization.

From Bellboy to Mailman

Against this background of mounting dissatisfaction with the Post Office, Tom Murray's Independent system has come into existence. Murray had no previous postal experience and would have had trouble getting a minor position in the Federal System. An Irish immigrant, he came to America in 1950 and began his business career as a bellboy in a Detroit hotel. Before long, however, he had become manager, and after that his rise was spectacular. The Mayor of Detroit actually proclaimed a "Tom Murray Day" in 1955, in recognition of Murray's outstanding service in community affairs. He was soon hotel owner as well as manager.

Murray's interest in hotels eventually took him to Oklahoma City where a conversation over a cup of coffee finally nudged him into the mailing business. A local businessman, Darrell Hinshaw, was complaining about his own growing difficulties with postal services. This was nothing new. But the complaints went a step further. Murray soon had some calculations and surveys which indicated that a private company might be able to carry third-class

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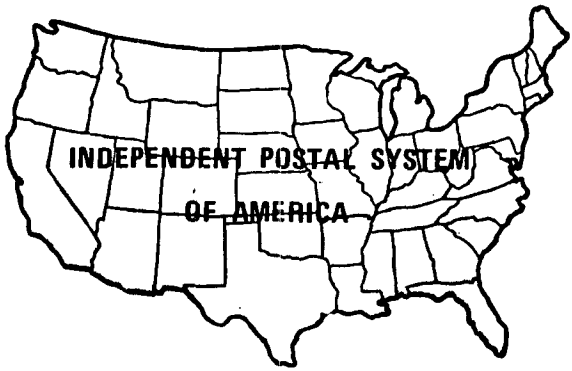

mail at *lower rates than the government and still make a profit!*

The figures fired Murray's imagination, particularly the business potential involved. Hotels and motels, as everybody knows, work in a field of fierce competition, with top limits on the growth that even the most successful firm can achieve. But here in the mailing field the potential market for third-class mail alone was in the billions. If a private company could break into the field and establish its own position, it could not only share this market but also participate in future growth of breathtaking proportions.

A Loophole for Deliveries

But how could a private firm enter the field when legislation prohibited it? Private mailing companies had actually flourished in early America, but by the middle of the last century had been driven out of business by the Federal Private Express Statutes. How could Murray work his way around statutes that had barred other businessmen from the mails for so long?

His door of entry was third-class mail, which has been shrilly condemned as "junk mail" in recent years and at times has been held responsible for many of the Post Office Department's problems. There's a fine line between "third-class" mail and circulars. A business firm for example, has the legal right to deliver printed material to residences, but not to use the mailboxes. Murray dashed off to a Third-class Mailers' convention, and listened to their gripes and problems, and also found them receptive to the idea of a private delivery system.

"I felt that the Third-class

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Mailers had made a major error in permitting their products to be labeled 'junk'," Murray says. "Third-class mail isn't junk, and it deserves its rightful place in the area of commerce."

Certain by now that he was on track, Murray found a group of backers who could put up $50,000 immediately and underwrite an additional $2 million for later expansion. By January, 1968, he had incorporated IPSA, opened offices in Oklahoma City, and announced plans to begin service in February. Deliveries would begin in the city, and then fan out to nearby states, with the long-range goal of becoming nationwide. As if to emphasize the nationwide goal, Murray chose an outline map of the U. S. for the system's trademark and insignia.

Disposable Mailboxes

Announcement of the daring venture captured the public interest; yet it also seemed a too-risky exercise in audacity. *Newsweek* magazine called it a "showdown" with the Post Office, and hinted that Murray would be blocked by Federal authorities. Reporting that Murray had already signed delivery contracts with a rubber firm and an insurance company, *Newsweek* also cited a Post Office Department legal counsel's opinion to the effect that Murray's operations were illegal, that nobody but the Post Office has the right to carry any class of mail. The magazine also suggested that Murray would be courting real trouble when he began making delivery in home mailboxes.

If there was any showdown, nobody in IPSA's headquarters ever noticed, because the Independent System swung into operation on its announced starting date and was soon making almost routine coverage of most of Oklahoma City. Murray wisely avoided challenging the Post Office Department ruling on use of home mailboxes, and developed an attractive plastic container which can be suspended from most doorknobs. The container not only protects the mail and other articles, but one side also serves as an advertisement for the Independent System. The other side has been sold as an advertisement for other firms, actually making the plastic container a profit item instead of an additional cost burden. IPSA would still like to use private mailboxes and is currently trying to get approval of a dual-compartment type, but the plastic bag is doing very well for the time being.

Murray's customer list multiplied almost magically, and by the end of the first year the system had served more than 100 clients and was operating in every major

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Oklahoma city as well as communities in Texas, Missouri, Ohio, Arkansas, Alabama, Mississippi, Illinois, New York, and even Canada. The company was expanded rapidly by selling franchises, and received hundreds of inquiries from private individuals seeking their own postmasterships. At the same time, IPSA was getting remarkable press attention, almost all of it favorable. *Newsweek's* follow-up article after IPSA's first year was largely a success story and other publications such as *Saturday Review* and *Nation's Business* saw a bright future for the Independent System, the latter calling it a possible end to the "130-year-old Postal mess."

Guided by the Market

Surprisingly, however, many of the Independent System's operations seem to be similar to those of the Federal department. The couriers still travel on foot, and use vans closely resembling U. S. Postal vehicles. IPSA deliverymen and U. S. mailmen wear almost identical uniforms, walk the same routes, and are often chased by the same dogs. What innovations have given the Independent System an edge, allowing it to take business away from the government mails?

One advantage has been price. Generally, IPSA has been able to deliver third-class articles at about 90 per cent of the Federal rate. A 2½ ounce item, for example, can be delivered by IPSA for 3.3¢, versus 3.8¢ for the U. S. rate. More important, IPSA can guarantee a specific delivery date, which many business mailers such as local retailers must have in publicizing special sales and other events. The Independent System has no "first-class" mail taking precedence in employees' minds, and hence all mail is given the same attention.

Beyond that, IPSA's business-like approach to problems may be winning them some clients. IPSA salesmen are making regular calls on large business mailers, such as Sears Roebuck, making it clear that their patronage is wanted and appreciated and offering to make service as attractive as possible. Until now, it has been the business mailer who has had to go hat-in-hand to deal with Postal bureaucrats and to be reminded of his product's inferior status in Post Office operations. It must be refreshing to most of them not to hear the term "junk" anymore.

Is IPSA actually handling third-class mail more economically than the government? Probably, although nobody can prove it because the Federal system has no systematic approach to its own costs and cannot say for certain

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that any class of mail is profitable or unprofitable. As a politicalized institution, the Post Office has simply carried the mail at rates established by Congress, then appealed to the same Congress to make up its annual "deficit." Even the deficit has been something of a myth, however, because the Department doesn't follow customary accounting practices for its overall operations and cannot really be compared with a corporation of similar size. For one thing, capital expenditures for the Post Office have been intolerably low almost every year and there are no indications that Congress will be willing to make them any higher.

The Uncertain Future

Where will it all end? Will Murray's Independent System continue to flourish and grow until it replaces the Federal Post Office? Or will the two systems continue to operate side-by-side, with Murray's organization specializing in "third-class" and the U. S. Post Office carrying the rest of the mail?

Most likely, IPSA's growth and success will turn out to be a source of embarrassment to the Federal mail carriers. In time, the department might conceivably want to restrict IPSA's operations. But this would bring it into collision with public opinion, which wouldn't support favoring the government's Goliath at the expense of Murray's David. If anything, public opinion may veer in the direction of permitting Murray or anybody to haul *all* classes of mail. If so, this would be a tremendous victory for free enterprise, and would finally give libertarians a chance to prove on a wide basis what they have always contended: that private businessmen can deliver the mail for a profit and give the consumer the same efficient service he gets in the delivery of other items.

Some persons believe that a private competitor may cause the Federal system to bestir itself to more efficiency. But don't look for it. The faults with the U. S. Post Office are the basic shortcomings of a socialistic, politicalized bureaucracy, and the officials and others working in the system, even if somehow they could know what ought to be done, are powerless to make the necessary changes. They simply can't make and carry out the day-to-day adjustments and decisions necessary to a good business operation. That's no surprise; it is the nature of socialism to centralize authority, to distort the price signals of the market, to discourage individual incentive, and to subsidize incompetence. Ironically, most of the schemes for correcting socialistic excess — such as the Kappel

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plan for the Post Office – really involve creating some of the conditions that prevail as a matter of course in private, profit-minded corporations.

It is also unfortunate that most people think it will take Acts of Congress to give us better mail service. We could have it right now if Congress would only repeal some of the Acts it has already passed. We simply need the freedom to *let anybody carry mail.* Right now, Tom Murray seems to be doing a great job with the "junk" mail the U. S. Post Office doesn't want to handle. He might do even better if he could carry all classes of mail. And suppose a few other private carriers also got into the mail-carrying business? Who knows? Even Murray might do better under the lash of competition!

IDEAS ON LIBERTY

Unbeatable Combination

WHEN the sanitation workers of New York City went on strike, the community was confronted with a calamitous pileup of garbage on its streets. Now a late press release tells of the garbage collection troubles of Madrid, Spain. But unlike New York, in Madrid, the sanitation workers of the city have competitors in the form of private garbage collectors.

According to the news report, "Madrid's 800 prosperous freelance garbage collectors . . . compete with the Municipal Sanitation Department in this capital of three million people." The freelancers are known in Spanish as the "traperos." They have been an institution of Madrid since the reign of King Charles III in the 18th Century. They are allowed to operate from dawn until 9 a.m. They collect garbage the same as they did in medieval times with donkey-drawn carts. They collect the equivalent of 35 to 70 cents monthly from each customer but that is not all. The trash they collect is a source of income. They use the perishable garbage to feed pigs, other items are sold to a processing plant, furniture and old clothes wind up at Madrid's flea market. The private enterprise garbage collectors of Madrid earn the equivalent of nearly $200 monthly – a high income in Spain. This compares with an average wage for Madrid's sanitation workers of $60 to $70 a month.

In garbage collecting, as in every other walk of life, incentive and private enterprise are an unbeatable combination. If the municipal garbage collectors of Madrid go on strike, their private enterprise competitors will likely be only too glad to take up the slack.

From *The Skaneateles Press* (N.Y.), June 27, 1968

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FORECASTING

HANS F. SENNHOLZ

MANY business forecasters and market analysts don't realize that they owe their jobs to government. Their profession was born with the first depression that engulfed an economy. And since depressions are the inevitable consequence of inflation and credit expansion, which are deliberate government actions, all occupations and callings that are concerned with the business cycle ultimately owe their existence to government. As a certified public accountant earns his livelihood from the complexities of onerous taxation, so does the market forecaster and business economist derive his support from government policies that generate economic booms and busts.

Dr. Sennholz heads the Department of Economics at Grove City College in Pennsylvania and is a noted writer and lecturer for freedom.

Businessmen want to know where they are in the cycle. In particular, they would like to know the time when a boom turns to a bust, the date of the break, length and depth of depression, the beginning of recovery, and so on. It does not matter whether they fully understand the ultimate causes of the economic dilemma. They usually know from experience that a boom created by inflation or credit expansion cannot last and must lead to a slump. This is why they often call on economists and expect of them what is beyond the ability of any man.

It is true, many economists can explain logically why the boom plants the seeds for depression. They are aware of the differences between simple inflation and credit expansion, which confuse most

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businessmen. But they have no special crystal ball through which they can view the future.

Simple Inflation

It does not matter whether the government treasury issues new legal tender notes directly to the people or places its obligations in the banking system which then monetizes the debt. In both cases the proceeds accrue to the government for deficit spending, which is the characteristic of simple inflation. It creates an atmosphere of prosperity and affluence. While many prices rise, business profits are good, stock market profits are excellent, and wages soar. It is true, the unfortunate victims of inflation, such as pensioners and individuals who live on fixed incomes, are forced to curtail their consumption. But most businessmen, workers, and government employees are led to increase their consumption. In fact, businessmen may even consume some capital.

In addition, the expectation of rising prices causes many people to reduce their cash holdings. They prefer to purchase goods and services now before prices rise again. And this reduction in cash holdings in turn raises goods prices even further.

Economic production promptly adjusts to the inflation pattern of spending. Industries catering to government demand and consumers' goods prosper and expand; other industries tend to lose some capital and labor. In fact, the capital consumption by government and business, in addition to the malinvestment of capital in inflated consumers' goods industry, creates a general shortage of capital. Interest rates soar. If the inflation is continued, interest rates will rise to astronomical levels, the purchasing power of money will fall, and the economy sink into deterioration and depression.

If the inflation should be halted before that dreadful finale, the economy will suffer the pains of readjustment. The inflated industries will contract, evidencing the symptoms of depression, stock prices decline, and interest rates fall. When the people are finally convinced that the inflation has come to an end, they may restore their normal cash holdings, which reaction tends to raise the value of money and reduce goods prices. And business will evidence more symptoms of recession.

Economists know all this. But they cannot know when the government will halt the inflation. After all, this is an arbitrary decision by the monetary authorities moved by political consideration, pressured by the beneficiaries of inflation, and misguided by inflationary doctrines. Even the mone-

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tary authorities themselves may not know whether and when they will make the decision. Will they really stabilize the currency or merely reduce the rate of inflation? When will they resume the inflation? At what rate? And finally, no one can foresee the reaction of the people. When will they increase their cash holdings? How much?

Credit Expansion

Credit expansion differs materially from simple inflation. Newly created money enters the loan market where it lowers the interest rate. The U.S. government may balance its budget, but in order to stimulate business and promote full employment it may flood the banking system with new credits. The lower interest rates induce business to embark upon ambitious projects of expansion and modernization, which leads to a boom in such capital goods industries as steel and tool making.

It is obvious that this boom lacks the real capital that flows from savings and profits plowed back. It is based on newly created money and therefore, sooner or later, must induce the feverish chills of a maladjusted economy. The boom activity pushes up the prices of capital goods which are business costs. Also, labor costs tend to rise, which leads to greater consumption expenditures and higher consumers' goods prices. But they usually trail behind the prices of producers' goods, which gradually reduce the profit margins of business. When the growing maladjustment of prices and costs finally inflict business losses, the depression begins. It is a period of readjustment and correction, in accordance with the true state of consumer choices and capital markets.

Many economists understand the causal connections of boom and depression. They know the irreparable harm done by credit expansion artificially induced in the structure of economic production. But they cannot possibly know the minds of the monetary authorities who initiate the credit expansion. How long will these men continue to feed the boom with more money? When will they finally be frightened by the consequences of their policies and decide to abandon them? Will they substitute credit contraction for expansion, or merely stabilize the money supply? Will they pursue the new course with conviction or waver between the new and the old? And when will the public realize that the signals have changed? What will trigger the stock market panic which indicates that the multitudes of investors are finally recognizing the change of signals and

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rushing to adjust their investments to the new situation?

The Future Cannot be Calculated

There are no rules covering the political actions of man or fixing the time of his reaction. The future is uncertain, and therefore, it is impossible to calculate the future structure of the market. In fact, there are no constant relations in economics. For instance, the effects of a 10 per cent expansion of the money supply on goods prices is unpredictable. Prices may rise little or much, depending on the reaction of men to the inflation. A bumper crop of wheat that exceeds last year's crop by 20 per cent may cause prices to fall little or greatly, depending on the variable behavior of men. If a statistician ascertains that prices actually declined 5 per cent at a certain point of time in a certain market, he merely established a historical fact, no constant measurable relationship that is valid for all times and places.

In the natural sciences, the individual factors of change can be observed and measured in isolation. But no such isolation is possible in human action. Experiences are always complex phenomena that do not provide the factual bases on which theories and predictions can be built. They cannot be made "quantitative" and be measured.

Quantitative economics, as it is practiced by central planners and would-be dictators, also disregards the market process. Its equations merely describe imaginary states of rest and equilibrium. It cannot explain why and how such states are brought about and cannot analyze actions that bring changes to the market process. The quantitative economist cannot perceive the activities of enterprising men, the entrepreneurs and speculators, who continually rearrange economic production in order to profit from price changes. In short, the economics of central planners is incapable of dynamic analysis; it is static and therefore contributes nothing to the elucidation of the market process. It miscalculates the future every time.

Entrepreneurial Judgment

The world is a scene of changes. Today is not yesterday, and tomorrow will not be today. We ourselves change. How, then, can we foretell man's works and deeds of tomorrow? Change, indeed, is painful, yet ever needful.

Entrepreneurs as businessmen and investors speculate on economic changes. They expose their wealth and income to the changes in the market place. In anticipa-

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tion of specific changes they rearrange their factors of production in order to prepare for future consumer wants. If they anticipate future changes correctly, they will earn entrepreneurial profits; if their judgments are wrong, they will suffer losses.

Genuine profits, which must be distinguished from interest on invested capital and managerial remuneration of the businessman, flow from the correct anticipation of future changes in demand and supply, resulting from changes in fashion and technology, government intervention, labor union policy, competition, and even the weather. On the search for such profits entrepreneurs must walk lonely roads, for profits can be found only where others have not prepared for changes and failed to adjust in time. When the multitude of investors arrives on the scene, the readjustment has been completed, and the opportunity for profit has disappeared. In fact, the multitude of late-comers usually overreacts and thereby creates new maladjustments which necessitate more readjustments.

Entrepreneurs do not depend on economists for reliable information about the future. They are skeptical about economists' advice and prognostication. But they are ever mindful of the need for reliable information on all relevant data. This is why they read the financial pages of newspapers and magazines, subscribe to advisory services, employ business economists, listen to the promises of government officials and watch their actions. Nothing must escape them. But all the data gathered cannot remove the uncertainty of the future.

More than 1,500 years ago Saint Augustine offered this explanation: "God will not suffer man to have a knowledge of things to come; for if he had prescience of his prosperity, he would be careless; and if understanding of his adversity, he would be despairing and senseless."

IDEAS ON LIBERTY

Historical Analysis

IN RETROSPECT historical analysis tries to show us that the outcome could not have been different from what it really was. Of course, the effect is always the necessary resultant of the factors operating. But it is impossible to deduce with certainty . . . the future conduct of men, whether individuals or groups of individuals.

LUDWIG VON MISES, *Theory and History*

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Statist Bureaucracy in the Modern Economy

GARY NORTH

> ~ *Where distinction and rank are achieved almost exclusively by becoming a salaried servant of the state, where to do one's assigned duty is regarded as more laudable than to choose one's own field of usefulness, where all pursuits that do not give a recognized place in the official hierarchy or a claim to a fixed income are regarded as inferior and even somewhat disreputable, it is too much to expect that many will long prefer freedom to security.*
>
> F. A. HAYEK[1]

[1] *The Road to Serfdom* (Chicago: University of Chicago Press, 1944), p. 132.

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SOCIOLOGY as a separate academic pursuit had its origin in the nineteenth century, beginning with the studies of Alexis de Tocqueville on American life and ending at the turn of the century with the contributions of Max Weber. Robert A. Nisbet has referred to this period as the golden age of sociology, and his book, *The Sociological Tradition* (1966), indicates why this should be the case. The basic themes of modern sociology were explored with insight, rigor, and creativity by those who deserve to be called the founders of the science, and contemporary scholars have generally been satisfied to refine, quantify, and expand upon the original contributions. (What we have gained in methodology has been paid for with the loss of lucidity in too many cases.) The major themes were all surveyed: alienation, mass democracy, centralization of power, revolution, secrecy, the problem of value and law, bureaucracy.

It would be safe to say that Max Weber, the German sociologist who is most famous for his essays on the Protestant ethic and the spirit of capitalism (1904-05), was probably the greatest social scientist who has yet appeared. His studies of Protestantism were only a subdivision in his larger investigation into the nature of religion and its relationship to the growth of modern, specialized bureaucracies. The process of *rationalization* became the focus of his voluminous studies. He saw the process in the modern West as irreversible. Men of the West have, since the sixteenth century, insisted on viewing the earth as something to be subdued through the application of rational technique – sophisticated mathematics, applied science, technology, systematic measurement. Increasingly, all spheres of human and animal existence are being brought under the operation of rational technique. The spiritual life of man is relegated to the confines of the "inner man," impotent to alter the direction in which rationalization is leading.

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Security vs. Freedom

Weber saw the implications of this process which gave man greater security from nature but less and less freedom of action. In 1918 he spoke these words to students at Munich University:

> The fate of our times is characterized by rationalization and intellectualization and, above all, by the "disenchantment of the world." Precisely the ultimate and most sublime values have retreated from public life either into the transcendental realm of mys-

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tic life or into the brotherliness of direct and personal human relations.[2]

Men flee to the old churches, or to intimate artistic expression, or into mysticism. Weber commends this, and he warns against the faith in scientific, academic solutions to all problems. His pessimism is almost overwhelming: "Not summer's bloom lies ahead of us, but rather a polar night of icy darkness and hardness, no matter which group may triumph now."[3]

Bureaucratization is upon us, Weber believed, and there is no longer any way to escape its effects. Rationalization gives us our material wealth, but it robs us of our traditional values and institutional arrangements. In this regard, Nisbet's comment on Weber's view of Marx is revealing:

> For Marx, capitalism was characterized by the privateness of ownership of property and the separation of the population into the two groups of owners and workers. For Weber, these elements are more nearly accident than essence. Moreover, and here is where Weber differed profoundly and lastingly from the Marxists, socialism, far from being the opposite of capitalism, would be only an intensification and widening of the essential properties of capitalism. Under socialism, rationalization, bureaucracy, and mechanization would become even more dominant in human lives than they are under capitalism.[4]

We shall see later in this essay that Weber's analysis was marred by a fusion of two very different types of bureaucracy, thus leading him to conclude that the capitalistic bureaucracy is only a less intensive form of the socialistic form. But his point against Marx is a vital one: the mere application of proletarian revolution to the process of rationalization will do nothing to make that process more personalistic.[5] The centralization of power involved in all socialist planning will only make things less flexible.

Profit and Risk

Frank H. Knight's classic study, *Risk, Uncertainty, and Profit* (1921), presents the most useful explanation of profit that any economist has yet produced. He has been followed in his exposition by Professor Mises. Only if we can conceive of a world in which all planning, acting men are

[2] Max Weber, "Science as a Vocation," in H. H. Gerth and C. Wright Mills (eds.), *From Max Weber: Essays in Sociology* (New York: Oxford University Press, 1946), p. 155.

[3] Weber, "Politics as a Vocation," (1918), *ibid.*, p. 128.

[4] Robert A. Nisbet, *The Sociological Tradition* (New York: Basic Books, 1966), p. 145.

[5] *Cf.* Gary North, *Marx's Religion of Revolution* (Nutley, New Jersey: Craig Press, 1968), pp. 111-17.

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omniscient can we imagine a world without profits and losses. Profit in such a world would equal loss — at zero. (Mises says that this world would still require an interest rate, while Knight denies it, but that is an extraneous issue for the purposes of this essay.) Profit, in this perspective, is a *residual* accruing to those individuals or organizations that successfully forecast the state of a market at some future point in time. The successful forecaster-planner is rewarded, since it is he who bears the risks of planning. The bearing of risk in planning is what economists call the *entrepreneurial function*. The term "manager" is generally used to specify the administrator of the plans handed down by the entrepreneur. In practice, the two roles may be intermingled, but for theoretical purposes it is useful to separate them.

Thus, as scientific planning techniques become more accurate, there should be a reduction of the realm of uncertainty. Forecasting techniques become more rigorous, and the very presence of a free market reduces the arbitrary elements in the economy. The scale of both profit and loss is narrowed; the reduction is proportionate to the reduction of uncertainty. Profits and losses will always be with us, simply because men are neither omniscient nor omnipotent; if they were, socialist planning techniques would be just as efficient as the free market is. That fact is the best argument against socialist planning.[6] Profit and loss are tied in with the operation of a free market which keeps fallible human beings laboring to overcome their deficiencies. No other system works so well.

Two Types of Bureaucracy

If the foregoing is accurate, why should we find so much inefficiency, so little competition among large firms, such utter bureaucratic incompetence, computer errors, and other signs that our economy is rewarding the less capable members? Why should economic irrationality be doing so well against the efforts of entrepreneurs to conquer it?

The existence of monopoly is one reason. Monopoly is a phenomenon which most governments not only tolerate but actively sponsor. Some of them we generally accept as part of the price paid for progress; an example would be the monopoly returns insured to developers by government-guaranteed patent rights. Copyright laws are another case in question. But the more absurd examples are the

[6] F. A. Hayek (ed.), *Collectivist Economic Planning* (London: Routledge and Kegan Paul, 1935); North, *Marx's Religion*, Appendix A.

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monopolies and oligopolies created by tariffs, such as an "infant industry" like the steel industry which wants protection from foreign competition. Tariffs invariably reward the inefficient producers at the expense of the efficient.[7] Then we have the monopolies that are insured against new competitors entering the field by laws establishing "fair trade" procedures that ultimately favor those businesses already established. These have been popular with big business for a century.[8]

Ludwig von Mises has offered a theory of bureaucracy that provides us with another explanation of today's inefficient firms. His discussion complements Weber's and improves upon it. Mises argues in his little book, *Bureaucracy* (1944), that there are two primary models of bureaucracy: (1) the free market structure; and (2) the statist bureaucracy. Both are necessary, he says; both perform valuable, but very different, functions. One form cannot be used to perform the tasks more suited for the other. It is an unwarranted mixing of the two categories, we can conclude, that has led to the creation of a weakened free market.

How Financed?

The key difference between the two models is the difference of finance. The question that we must always ask in assigning a task to either is this: how does it receive its operating funds? If this is not asked in advance, there will inevitably be created a system which will not be able to do its job efficiently.

The *free market bureaucracy* operates on an open market that permits the entrance of competitive structures. Whatever profits it makes or losses it sustains will be determined by its ability to satisfy consumer demand. Assuming that it stays within the framework of law established by the state, the only question that it *must* ask is whether or not its income exceeds its expenditures. The free market permits its bureaucratic structures to fail if they do not meet the needs of the buying public. Thus, the top level of any bureaucracy has a guide to the performance of the lower levels, especially with those levels connected with sales: are they pro-

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[7] Gary North, "Tariff War, Libertarian Style," THE FREEMAN (August, 1969).

[8] Gabriel Kolko, *The Triumph of Conservatism* (New York: The Free Press, 1965); Walter Adams and Horace M. Gray, *Monopoly in America: The Government as Promoter* (New York: Macmillan, 1955); Robert M. Hurt, "Antitrust and Competition," *New Individualist Review* (Winter, 1962); articles on the ICC, FCC, and CAB in *ibid.* (Spring, 1963); James Mofsky, "Blue Sky Laws," *Duke Law Review* (July, 1969).

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ducing profits or losses? Any bureaucracy must be hierarchical; the important differentiating factor is the set of guidelines used by the top level to evaluate the performance of the lower levels.

The standard of measurement in this case delegates to the lower levels considerable *responsibility* and therefore a more extensive *flexibility*. The lower levels are expected to know the conditions of supply and demand – the particular markets – far better than bureaucrats at the top level can possibly know them. Thus there is an integration of knowledge: the top level assigns the general goals – products needed, aggregate *estimates* of expenditures and possible profits, the prospective operation of the company as a whole – while the lower levels try to fulfill their basic responsibility, namely, to turn a profit. If they do turn a profit, they are left alone by the upper levels; if they fail, they can inform the upper levels of any corrections needed at the top, or else they can be replaced. The free market bureaucracy, in short, possesses *greater flexibility* than the statist form because it is subject to the possibility of *failure*. Its income is therefore dependent upon its success or failure on the market.

The *statist bureaucracy* operates under a totally different system of financing. Its expenses are met by the state. Therefore, the responsibility of the managers of this bureaucracy is to see to it that all the income received is spent only on those items budgeted in advance when the operating budget was originally drawn up and approved by the state. The statist bureaucracy has *fixed budgets* and is not subjected to the competition of an open market. Thus we find the top level of the hierarchy concerned with the disbursal of the appropriated funds: is the money going to the proper subordinate level; is it being spent as previously approved; is all the money accounted for on the proper forms? By the very nature of the structure, there can be very little flexibility permitted to the lower levels, and the upper levels must see that all goes according to the previously approved plan. The task of the upper level is supervisory, not in the sense of evaluating profit and loss, but supervisory in the sense of *control*. The premium is placed on *accurate reporting* of control data; the goal is *total predictability*. This is inherent in the very nature of the statist bureaucracy. It has to be, as Mises points out. The state wants to be certain that its appropriations are being spent as legislated.

There is nothing wrong with the statist bureaucracy as a type.

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We must be certain, however, that it remains within those spheres of activity that require a bureaucratic structure that is totally predictable. This is precisely what Hayek calls for in his *Constitution of Liberty* (1960). The essence of a free legal structure is one which operates on all equally, and which is predictable by the citizens in advance. This is what permits competition on the free market: the rules of the game are known in advance. The place where you do not want arbitrary actions is in the administration of justice. Thus, the statist bureaucratic structure is not in opposition to this aspect of a society; we do not want to see justice decided by the sale of it to the highest bidder (as would be the case with a free market bureaucratic structure).

The danger comes when the statist bureaucracy is called upon to handle the tasks met most efficiently by the free market. When commodity production is involved, or services that are something other than the services of the legal framework and its enforcement, then there will be signs of breakdown in a statist bureaucracy.

Spillover Effects

What we have been witnessing in America for at least four decades is the gradual encroachment on the private sectors of the economy by the state. Naturally, the state must administer its operations through a bureaucratic structure. The only structure it can use is one described best by Mises' second model. The flexibility and competitive nature of the free market bureaucracies is being replaced by the less flexible, administration-oriented statist bureaucracy. Increasingly, the possibility of profit and loss is less a function of accurate economic forecasting than accurate *political* forecasting. Ayn Rand is correct: we are creating an "economy of pull." Political manipulation, especially in the large corporate structures, is the key to survival.

We live in a world of scarcity. Men are forced to compete for the things that are scarce. They may be captains of American industry competing on a free market; they may be Soviet commissars competing in terms of a socialist structure; but they will compete if they wish to maintain their control of scarce economic goods. The question that men must ask is this: what are the success indicators by which my performance will be evaluated? If the goal is oriented toward the political, they will compete in political ways; if the goal is production in terms of a voluntary market, then they will compete economically. The political goal will place a premium on

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obedience to the state's stated goals rather than the (as yet) unstated demands of a future free market. Socialism, in other words, tends to create men who obey what has been handed down to them in the past; the free market is aimed at what entrepreneurs think will be demanded in the future. The first requires obedience rather than creativity. This is socialism's nature.

Here, it would seem, we find a likely explanation of the transformation of American industry. The statist bureaucracy demands that all subordinate branches conform to the stated goals of officialdom. It creates a demand for men who can *follow*. Mises makes a good point in his book, *Socialism:* the goal of the statist is to see the whole world inhabited only by officials.[9] Innovative capacities are not utterly ignored, of course, but they tend to be de-emphasized if they come into conflict with other goals, such as the smooth operation of the bureaucratic structure. Clearly, any bureaucratic structure tends to favor smooth operations, but only a bureaucracy insulated from failure can afford to see this goal fully achieved.

With the advent of "cost-plus" financing – a development of wartime, centralized planning – corporate structures have learned to live in terms of competition based on *stated* goals. In a sense, today's competition is increasingly the competition of the *engineer:* given a certain goal, how can it be produced most cheaply? Submit bids, win the contract, and then get every member of the "team" to keep his costs in line with the projected study (well, maybe not quite in line – a little extra expenditure never hurt anyone. Right?) This kind of competition is unlike the competition of the *entrepreneur:* what kind of product should we produce, given a future market that is not certain? This latter kind of competition involves risk, because it involves uncertainty. The more the state is the purchaser on the markets, the more this kind of risk-taking individual will find his world eroding. The demand will be for the engineer, the official, the manager, i.e., the man who can follow orders.

Case Studies

A friend of mine is an engineer, but one who appreciates the entrepreneur's function. He developed a certain kind of seal while he was working with a company dealing with such mechanical parts. The seal was more efficient than the competition's, but the competition had the market controlled. How to

[9] Ludwig von Mises, *Socialism* (New Haven: Yale University Press, [1922] 1953), pp. 208-09.

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get the information of the new seal to the competition's buyers? He estimated that if the top salesman with the other firm could be lured away, that man could get maximum distribution of the new seal in two years time, as compared with five if he were not hired, a saving of three years of marketing development. The man was known to be ready to change, since his own company was not going to let him climb much higher. He made $18,000 a year; he offered to come over for a 10 per cent commission, with nothing owed to him in the first year unless he succeeded in selling $200,000 worth of the parts. He was refused. Then he said he would work for a straight $20,000 plus a small commission. He was refused. He was offered $19,500. The reasoning: "No salesman working for this firm makes over $15,000 per year, and no salesman could be worth $20,000!" For the sake of $1,000, the company lost a chance to save three years of marketing development. The $500 a year became a symbol; the symbol meant more than sales. This is the mind of the statist bureaucrat. That mind is what is being produced today by our schools and our industries.

Another example is even more revealing. A certain Japanese firm was ready to "invade" America with high quality technical products which met or exceeded the best American firm's parts at a cheaper price. The key to the success of the operation was again marketing. The parts were able to be purchased by almost any firm making machinery; there are so many of these firms that American producers believed it would take literally decades for the Japanese firm to get into the position of a threatening competitor. They sat on their hands, unconcerned. The Japanese firm decided to get the marketing devices – the salesmen – of the other firms. They did it with an occult phrase: "We pay double." Ah, those orientals: inscrutable! The American firms began to threaten the Japanese firm with lawsuits: unfair business practices was the cry. To no avail, as it turned out.

Hayek warned us 25 years ago that in a statist economy, the quest for security would become paranoiac. Men are trained, paid, and respond in terms of a system that demands conformity and supplies security.

> It is no longer independence but security which gives rank and status, the certain right to a pension more than confidence in his making good which makes a young man eligible for marriage, while insecurity becomes the dreaded state of the pariah in which those who in their youth have

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been refused admission to the haven of a salaried position remain for life.[10]

Education

The university has been a bureaucracy of the statist typology from the day that professors stopped being supported by the voluntary contributions of their students (which was normal in the twelfth century). With the advent of tenure, closely followed by state financing and Federal grants, the college professor has become a bureaucrat so safe that only the functionary of the larger tax-exempt foundations can claim to be more insulated from competition. This is equally true of the professor on the private campus, given the financial position of tax-exempt endowments. These men, as we might expect, train our youth in terms of the ideals which they themselves hold. American corporations are more and more involved in sales to the state, and therefore they begin to adopt the control characteristics of the statist bureaucracy. They need people to staff their posts. Thus we find the overwhelming number of graduates from our universities going into three main areas of employment: government service, college or public school teaching, and large corporations. That is what they have been trained to do; that is what the state pays for and the large corporations want.

Karl Jaspers once described the university's faculty, but he described at the same time almost any bureaucratic structure that does not compete on an uncertain market. It tends to drift toward mediocrity. It avoids hiring incompetents, since that would reflect badly on the bureaucracy's ability to screen its candidates, thus encouraging outsiders to step in and take over hiring practices. On the other hand, it tries to avoid hiring the really competent, for these types will reveal the lack of competence on the part of their colleagues. In an *insulated* bureaucracy, the premium is on *mediocrity*.

Penalties for Creativity

What we find, as a result, is the degradation of education in our nation. Creativity is regarded as deviant behavior and a threat, both in professors and students. The structures are not geared to reward creativity. A minister I know is musically gifted. When enrolled in the M.A. program of one of America's most respected universities, he offered as his M.A. thesis an original chorale. As an M.A. in music, one would expect a man to be a creative musician and/or composer. The thesis was

[10] Hayek, *Road to Serfdom*, p. 130.

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rejected. He was told that it was all right as a piece of music, but he was expected to submit a work of scholarship, with footnotes and some sign of original research. Such is the curse of the modern university. Its ground of total insulation – academic freedom – is based on one false, but at present accepted, hypothesis: education can be neutral and therefore legitimately supported by coerced state taxes. It therefore avoids all signs of creativity, which in turn might reflect a concept of truth (and truth, we all know, is tainted with religious value); professors hide, desperately, in the safe cloak of academic *methodology*, the only truth they recognize.

The result has been the creation of swarms of graduates so beautifully described by a 1968 college yearbook:

> Like ghetto children who drop out of school to get $35 a week jobs, they are unable or unwilling to engage in plans for long-range accomplishment or amelioration because they have no philosophical referents, or ways of coping with, that sort of thing. Many, perhaps most, of them develop the defense of smugness, of pretending that they have accomplished something already with their diplomas and technical vocabularies. And for the others, if revolution and anarchy seem too often to be their choice, it is because in this century, revolution is the most familiar way in which history manifests itself, or seems to.[11]

The relativism of the classroom has done its work. It has created methodological drones, adept at sentences beginning with "on the one hand," and ending with "but on the other." The hackwork of methodology is all the schools can impart, with one exception: the student also learns that all truth other than today's prevailing methodology is relative. This relativism breeds nihilism in the consistent students: if all standards are equally true, they are all equally false, so destroy them and build something new. Thus the best students tend to become revolutionaries, at least for a time, and the others become drones. It is the death of culture. The university, which was originally intended to preserve and create, today is best equipped to destroy; that's what we pay for – and what we get.

The Solution

There can be a reversal of this destructive trend only with the reestablishment of conditions that permit private failure. If this is not done, then the failure will be collectivized, centralized, and compounded throughout our entire culture. The failure will be general, hierarchical, and total, just as our

[11] University of California, Riverside *Tartan* (1968), p. 145.

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statist bureaucratic structures are. If failure is not seen as one of the basic human rights, then we shall witness an institutional "failure of nerve," just as the Greeks did. Gilbert Murray's *Five Stages of Greek Religion* will serve as our epitaph, as well. The unbridled quest for security will give rise to total insecurity. The warning Hayek has given to us regarding the fate of Germany and Italy in the 1930's should be heeded:

> While the younger generation, out of that contempt for profitmaking fostered by socialist teaching, spurned independent positions which involved risk and flocked in ever increasing numbers into salaried positions which promised security, they demanded a place yielding them the income and power to which in their opinion their training entitled them. While they believed in an organized society, they expected a place in that society very different from that which society ruled by labor seemed to offer.[12]

When the bureaucrats revolt, who will be left to run the system? If all bureaucracies have been lured by the promise of security to imitate the structure of the controlled, statist bureaucracy, the seeds of institutional creativity will have long since been scattered to the wind. The whole world, indeed, will be inhabited by no one except officials.

[12] Hayek, *op. cit.*, p. 117.

Weber was wrong. The process of rationalization, in the way he described it, cannot go on. He saw the development of all bureaucracies into the overarching socialist type. If this happens, and if the free market's bureaucracy cannot be rediscovered and reinstituted as the foundation of our economic system, then the process will stop; it will be reversed in a cataclysm of failure. The process is not self-sustaining; rationalization can go on only so long as men seek to subdue the earth rather than each other. Convince the masses that the system is out to subdue them (rather than their neighbors), and a massive impulse will be created to destroy the system. Rationalization is simply a product of rational minds; remove the rationality and creative impulses from the system, substitute the drone who does not understand the rationalization process, and the process will stop. And that stoppage, given the degree of specialization and interdependence of today's economy, will be costly beyond our imaginations.

Failure, in short, is the inescapable concomitant of life. It is a basic human right. Remove the right to personal failure, and you dehumanize mankind; a dehumanized mankind cannot hope, as a collective entity, to do anything but fail. Hayek's point is well

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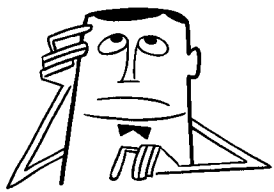
taken: "Thus, the more we try to provide full security by interfering with the market system, the greater the insecurity becomes; . . ."[13] It would seem that we are on the brink of total insecurity.

[13] *Ibid.*, p. 130.

We must convince men that they are personally responsible for their actions, and with responsibility alone comes true human freedom. *The right to fail,* like the right to succeed, *is one of mankind's most fundamental rights.*

Reflections on the Guilt Complex

LEONARD E. READ



ANYONE who has the slightest idea of how freedom works its wonders – thus having a faith in free men – cannot help but be appalled by the increasing number of affluent individuals who support welfare-state concepts and programs.

The cause often ascribed for this apostasy – this turning away from the free society by those it has raised to positions of affluence – is that the wealthy are victims of a guilt complex. They are ashamed to be more successful than their fellowmen! Personally, I believe this to be a fallacy; further, it is a mischievous explanation and we do injury to the freedom philosophy by excusing these apostates in this manner.

A wealthy friend suggests a state minimum wage law so high that tourist accommodations in his area will no longer be financially feasible; he wants his beautiful countryside uncrowded and uncluttered. A statist position in order to have his little world to himself! This, for certain, is not a guilt complex.

Or, here's a suspicion of mine: Turning to welfare statism is purely a pose assumed by many affluent persons – often unwittingly – to shield themselves from a growing number of socialistic critics. They pose as welfare stat-

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ists or profess to be in business for "the social good" rather than for profit; saying, in effect, to those who covet their affluence, "See, I'm on your side and doing all in my power to bring you to my level." This is far from a guilt complex.

Now and then there may be a business mogul or an inheritor of wealth who actually believes that "from each according to ability . . . to each according to need" leads to social felicity. But we cannot call the advocacy of this Marxian tenet a guilt complex.

There is little point in tracing causation further. The causes are far more numerous than the number of apostates, for each of them is led down the primrose path to socialism by more reasons than anyone else can fathom or than he himself is aware of. All of these countless defections are either immaturity or a lapse of judgment – thoughtless drifts – that are as common to those who "have it made" as to those who haven't. However, in no instance do we uncover a guilt complex.

Suppose that Success Were a Mark of Distinction

Suppose that affluence were a mark of distinction – that getting ahead of others, becoming rich through voluntary exchanges, or making big profits brought not criticism but applause, acclaim, esteem from everyone. Were this the case, would the affluent among us be apologetic for their success, that is, would they have a guilty feeling? Indeed, they would not! Instead, they would be basking in their glory.

Or, look at it this way: If some person's guilty feelings bred an uncontrollable compassion for others – as the Bible puts it, "this man's possessions were weighing him down" – any individual so afflicted could sell his possessions and give to the poor. Until we see such voluntary charitable behavior on the part of an affluent person, let us hear no more about a guilt complex as an explanation for his apostasy!

Sell his possessions and give to the poor! What, really, are the wealthy doing when they side with welfare-state concepts and programs? The very opposite! They are advocating that *your* and *my* possessions be expropriated and given willy-nilly, more often than not with injury to the poor. This posture may, on occasion, gain approval or silence criticism but only because so few see the sham in it. If the naked truth were apparent to all, would an affluent person so unfavorably expose himself? Of course he would not! Only professional comedians try to make a laughing stock of themselves.

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Affluence Gains Publicity

Why put so much emphasis on the apostasy of the affluent? Why not equally on the apostasy of those in the middle or lower brackets?

In all frankness, this apostasy — by the rich or by the poor — may be fairly and accurately diagnosed as an utter lack of understanding, a failure to grasp the most simple and basic economic relationships of cause and effect, of human action and its consequences.

This is not to suggest that persons of affluence are either more or less prone to these lapses into medieval or primitive ways than those on the lower rungs of the economic ladder. Understanding is not advanced or retarded by the rise or fall of bank balances; there is no correlation between the two.

But an affluent person — usually well known — packs more weight than a poor person. The views of a captain of industry or finance or whatever are much publicized, whereas the views of a person who hasn't "made it" yet may go unheard or unheeded, even by his family. The "higher-ups" make news, and to the extent that they defect from freedom principles they infect more than their fair share of fellow Americans. This is why the apostasy of the affluent merits special attention — and disapproval, not acclaim.

Fortunately, each of us has it within his own power to immunize himself against economic sophisms and fallacies. We need not be misled in economic theories and practices by a spreader of nonsense, whether he be affluent or poor.

No genius is required to see clearly that an unhampered market economy best fulfills the peaceful wants and ambitions of everyone involved. Each best serves himself by serving others, producing his own specialty, trading for theirs. To be ashamed of success under such a creative arrangement, is to be sick of mind. The market does, in fact, handsomely reward those who best serve others, and the others ought to know and welcome the result, be glad and proud of it, for their very lives depend on this.

The alternative to which men turn in their failure to understand is a coercive tyranny that condemns mankind to slow starvation. This is not really a concern for the poor; it is not a guilt complex!

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CLARENCE B. CARSON

A Law for Governments

ACCORDING to the lore of our time, business monopolies are highly dangerous – so dangerous in their threat to the commonweal that they must either be prevented or regulated and controlled. For many years, attention has been focused on the supposed untoward character of business activities and of how the innocent may fall victim to them. This emphasis has drawn men's eyes and attention away from both the source of harmful business monopoly and the noncommercial monopoly which poses the greatest threat of all to the peace and well-being of peoples. That is the monopoly which government has – *the monopoly of the use of force in a given jurisdiction.* All other monopolies pale before this one in the potentialities for destructiveness, and it is this power alone which can give to business activities potentialities for continued and concerted damage.

Yet, government is not only a great potential danger but also a necessity. Unless somebody has a monopoly of the use of force in a given jurisdiction, there is likely to be more or less continuous warfare as groups contend for control. That there be a monopoly within a jurisdiction is necessary for peace, and government is also charged with keeping the peace – with preventing aggression from abroad, with putting down domestic insurrection, with inhibiting assault, deception, and with settling disputes which may arise. In short, government is not only potentially dangerous but also potentially highly beneficial. In any case, it is necessary.

The dangers of government are manifold: that it will be despotic,

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arbitrary, tyrannical, confiscatory, dictatorial, weak and ineffective, strong and overbearing, aggressive, destructive of life and property, playing favorites, and so on. Nor is there an abuse of which those who govern are capable that has not many times been practiced. Rulers have from time immemorial perpetrated aggressive war, deceived their own and other peoples, raped and ravished, stolen and confiscated, put the innocent to death, and allowed the guilty to run loose and wreak havoc. To say that governments have also dispensed justice and maintained the peace is equally true, but it should not mislead as to the inherent dangers of such an instrument.

The existence of government poses a grave and recurring danger. It poses a problem, too, which may be stated in various ways. How shall this force of government be contained and restrained? How shall those who govern – for after all, the danger that government poses arises from those who govern – be kept from acting arbitrarily and despotically? How shall those who make, administer, and interpret the laws themselves be brought under the law? This last is, in essence, the question as it should ever be posed. It should be clear that there is no easy answer to it, nor is it likely that the problem will be finally solved. Government operates by the exercise of power. To do its job effectively, it must have a monopoly of the use of force in a jurisdiction. Yet such a monopoly makes it most difficult to bring government under the law. There must first be a law for governments. Then, devices must be found for inducing those who govern to abide by the law.

Natural Law and Constitutions

In modern (post Renaissance) Western civilization two intertwined devices have been employed to bring those who govern under the law – to establish a law for governments. The first – and most fundamental – of these is the natural law theory. The second is the device of having a written constitution.

These methods did not arise in a vacuum. Instead, there were compelling circumstances for coming up with some means of bringing rulers under the law. The major political trend in many European countries was toward absolute monarchy in the sixteenth and seventeenth centuries. This meant, in theory, that all power issued from the monarch and might be claimed by him. Also, it tended to mean that there was nobody to hold the monarch in check, or make him subject to the law. The inevitable result was rule

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at the whim of the monarch – arbitrary and despotic government. Not everywhere and at all times was it equally the case, but it was certainly the dominant trend.

The natural law theory provided the foundation, in these circumstances, for bringing government under the rule of law, for delimiting the powers of the monarch most particularly. Here was a law above and beyond the power of monarchs to alter and to which they, like other men, were subject. Natural law theory was not, of course, new to the sixteenth and seventeenth centuries. It had been effectively formulated by the Roman Stoics, and following that formulation became a part of the heritage of Western civilization. It received new impetus not only from the need to find some means for circumscribing the powers of monarchs but also from Renaissance humanism and the scientific developments of the seventeenth century.

Some of the early spokesmen for natural law theory on the continent of Europe were Hugo Grotius (1583-1645), Samuel Pufendorf (1632-1694), and Jean Bodin (1530-1596); in England, Richard Hooker (1554-1600), James Harrington (1611-1677), and Algernon Sidney (1622-1683). From these, and others, it entered a general stream of thought to be espoused by such continental European, English, and American thinkers as Burlamaqui, Vattel, Beccarai, Locke, Blackstone, Montesquieu, John Wise, Jonathan Mayhew, and Thomas Jefferson, until it was the dominant mode of thought in the eighteenth century.

A Law Antecedent to Man

Basically, the modern natural law theory held that there is a law antecedent to man, society, and government, that this law is from God, that it is a law which must be observed if each of these is to reach its true form and fulfillment. It is discovered by attending to the nature of things, and when one attends rightly to the nature of things, he is using right reason. When man's nature and the nature of the universe are viewed in this fashion, it is found that man has certain natural rights: namely, the right to life, to the use of one's faculties, and to the fruits of one's labors. Society is natural to man – man is a social being – for within society he can make those exchanges which satisfy and complete him. In like manner, government is necessary for man, for it enables him to live in peace, to have fruitful relations with others, and keep what is his.

The great thrust of modern natural law thought was to limit

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government to its proper sphere. One historian of natural law says, "Now the primary practical object pursued by the theorists of Natural Law was the delimitation of an area within which objective Right should be withdrawn from the caprice of the legislator, and subjective Right should escape the attacks of the State's authority. . . . It was thus with a new and unprecedented force that the theory of Natural Law was able to enter the domain of public law. . . ."[1]

That the natural law set bounds to the actions of government was the import of what many of the theorists had to say. Hugo Grotius declared that "it is beyond controversy among all good men that if the persons in authority command anything contrary to Natural Law or the divine precepts, it is not to be done.... First, those rulers who are subject to the people . . . , if they transgress against the laws of the State, may not only be resisted, but put to death. . . ."[2] Burlamaqui maintained that "if the abuse of the legislative power proceeds to excess, and to the subversion of the fundamental principles of the laws of nature, and of the duties which it enjoins, it is certain that under such circumstances, the subjects are by the laws of God not only authorized, but even obliged to refuse obedience to all laws of this kind."[3] John Locke particularized "the bounds which the trust that is put in them by the society, and the law of God and nature have set to the legislative power of every commonwealth, in all forms of government."[4]

Natural law theory would not, of itself, bring governments under the law. Natural law has presumably been in existence since the beginning of time. Nor have great thinkers from time to time been wanting in their understanding of its precepts. But as a theory, the natural law does not and has not prevented arbitrary and despotic government. The second step in bringing under the law those who govern was to specify the laws for those who rule in a particular state – to have a constitution.

The British Model

The British pointed the way to constitutional government. Indeed, the British had a long history of attempting to subject their government to the law. Most of this

[1] Otto Gierke, *Natural Law and the Theory of Society*, Ernest Barker, trans. (Boston: Beacon Press, 1957), p. 39.

[2] Wilson O. Clough, ed., *Intellectual Origins of American National Thought* (New York: Corinth Books, 1961), pp. 174-75.

[3] *Ibid.*, p. 194.

[4] *Ibid.*, p. 159.

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effort was devoted to making the king rule by and observe the law. The question was usually phrased in this way: Is the king above the law? Sir John Fortescue, the leading legal mind of fifteenth century England, maintained that the king was not above the law. But Fortescue was not taking a novel position in English history, though he may have taken it more pointedly than had his predecessors. It had been made dramatically clear at least two centuries before that the king should not be considered above the law. The main thrust of the Magna Carta which King John signed in 1215 was his acknowledgment that he must observe the established legal procedures in his acts.

The matter came to a head once more in the seventeenth century, and more famous documents were added to the English constitution. The Stuart kings claimed absolute powers, and their subjects took action to restrain them. Charles I subscribed to the Petition of Right which spelled out new limitations on his power. The Bill of Rights, proclaimed in the latter part of the seventeenth century, settled the matter definitively. The king was brought decisively under the law.

It was never made so clear, by documents, however, that the other branches of government were under the law. The great model of a constitution which set forth a thoroughgoing law for government is the United States Constitution, supplemented by the constitutions of the states. Here, for the first time effectively, a law for all branches of government was committed to paper. That the United States Constitution is a law for the government it authorizes must not be generally understood. Yet that is what it is. Every one of the original passages deals with the powers of government, with the authority of those who govern, or with how they shall be chosen, for how long they shall serve, what their qualifications shall be, and how the Constitution shall be ratified and amended. The Constitution is not a law for the citizenry, except in respect to how they shall be governed and what political procedures shall be followed. It is a fundamental law for government.

Limitations upon Government

This character of the Constitution may be clearly shown by quoting a few passages from it. Article I, section 1, reads: "All legislative Powers herein granted shall be vested in a Congress of the United States, which shall consist of a Senate and House of Representatives." The remainder of that portion deals with qualifi-

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cations of legislators, the conduct of their business, and the extent of the legislative authority. Article II, section 1, reads: "The executive Power shall be vested in a President of the United States of America. He shall hold his Office during the Term of four Years, and, together with the Vice President, chosen for the same Term, be elected, as follows. . . ." There follows a description of the mode of election, the qualifications for the office, how the President may be replaced, and a listing of his powers and duties. Article III, section 1, begins: "The judicial Power of the United States, shall be vested in one supreme Court, and in such inferior Courts as the Congress may from time to time ordain and establish." This, too, is followed by an account of the authority and jurisdiction of the Federal courts.

Article IV as well as parts of Article I deal with prescriptions for and limitations on state governments. For example, Article IV, section 1, says: "Full Faith and Credit shall be given in each State to the public Acts, Records, and judicial Proceedings of every other State. And the Congress may by general Laws prescribe the Manner in which such Acts, Records and Proceedings shall be proved, and the Effect thereof." Article I, section 10, contains such points as these: "No State shall enter into any Treaty . . . ; coin Money; emit Bills of Credit . . . ; pass any . . . Law impairing the Obligation of Contracts. . . ." Article V sets forth precedures for amendment.

Article VI proclaims all earlier debts of the United States valid, declares that all laws and treaties made under the authorization of the Constitution the supreme law of the land, and prescribes the oath binding upon all officers of the United States and of the several states. Article VII simply prescribes the method and how many states shall be necessary for ratification of the Constitution.

It is the fact that the Constitution is a law for governments that makes it so important that its provisions be rigorously observed. It is important, of course, that private individuals abide by the law. It is even more important that those who govern abide by the law, for when they act lawlessly they do so with the full force of government.

Separation of Powers

Drawing up a law for governments was one thing; getting it observed was something else. The answer to monopolistic abuses in private industry is competition. If a company does not serve well, or its products are exorbitantly

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priced, in a free market others may enter the field and subject that company to the discipline of the marketplace. There is not so ready a solution to the problem posed by a government's monopoly of the use of force. Direct competition among governments is a thing to be avoided rather than sought, for direct competition in the use of force is warfare.

Yet, it is possible to use the competition principle in a modified form without inviting perpetual warfare. One way that this has been done is by the separation of powers within the government so that those who govern may check and restrain one another. The famous formulation of this doctrine was made by Montesquieu in *The Spirit of the Laws*. He reasoned in this fashion:

> When the legislative and executive powers are united in the same person, or in the same body of magistrates, there can be no liberty; because apprehensions may arise lest the same monarch or senate should enact tyrannical laws, to execute them in a tyrannical manner.
>
> Again, there is no liberty if the power of judging be not separated from the legislative and executive powers. Were it joined with the legislative, the life and liberty of the subject would be exposed to arbitrary control; for the judge would then be the legislator. Were it joined to the executive power, the judge might behave with all the violence of an oppressor.[5]

Looking at it in another way, the separation of powers principle may be seen as a means of inhibiting tyrannical power by bringing those who govern under the law. Whereas, if the powers are joined in a single body, there would be nobody to see that it observed the law.

American Federalism

The British government was thought by Montesquieu to embody the separation-of-powers principle in the eighteenth century. So it did, for the monarch was reduced mainly to the execution of the laws, Parliament enacted the laws, and there was a more or less independent judiciary. Americans accepted Montesquieu's formulation as an article of belief and separated the powers of government both in the United States Constitution and in those of the states.

Americans went further than this in retaining as much of the competitive principle as practicable in order to keep government under the law. They set up a federal system of government, one in which the powers of government were dispersed among the general and the state governments. Each of these governments was to have

[5] *Ibid.*, p. 186.

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a jurisdiction over the citizenry under it. This made it so that a grasp for power by those in one government would tend to endanger the powers of those in the other. They might be expected in their own interest to resist expansions of power and hence restrain each other.

Checks and Balances

An even more subtle form of competition is inherent in the republican form of government established in the United States. Those who govern derive their tenure from the consent of the people, either directly or indirectly. That government be under the law is a condition of the liberty of the people. That is, an increase in the powers of government will be at the expense of the people, or some portion of them. Hence, the electorate may be jealous of their own prerogatives and resist the extension of government power. At the least, they may turn out of power those politicians who have displeased them when they come up for election.

Under the influence of Britain and the United States other peoples turned with a will to the task of establishing a law for their governments in the nineteenth century. Constitutions were drawn up, elective legislatures set up or buttressed, powers balanced and checked, and arbitrariness restrained. Limited governments provided for more liberty than most peoples had ever known. In many ways, this movement toward constitutional government reached its peak – and its virtual culmination – in the wake of World War I when the old autocratic governments were overturned, the territories of empires carved up into nation-states, and constitutions adopted which were supposed to provide extensive liberties for the inhabitants.

Twentieth Century Reformers Revert Toward Tyranny

But a counter tendency had already set in, one which would eventuate in new tyrannies, arbitrary governments, dictatorships, and oppression. The first peoples to fall under the new despotism were the Russians, with the establishment of the Soviet Union in the early 1920's. They were followed by the Italians, Germans, and many others in various degree. Behind much of this thrust was not only the age-old desire of those who govern to be unlimited in their exercise of power but also a rationale for the concentration and exercise of power. That rationale can be called, generically, socialism, though it is known also as communism, fascism, collectivism, syndicalism, and "liberal-

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ism." The animating idea behind it is the determination to use government power to make over man and society according to an ideological vision of what they should be. The effort to accomplish this is made by massive applications of government power. This power is applied in order to attempt to manage and control the economy, redistribute the wealth of the land, provide favors for the indigent, empower certain groups, disable certain others, and bring the whole under the sway of government. In some lands, this has been done directly, brutally, and dictatorially. In others, such as the United States, the effort has been made much more subtly, with a minimum of the show of force, and in the framework of other forms of government. In all cases, however, the effort has been made by unloosing those who govern and restricting and restraining the general populace.

That tyrannies have made their appearance in some places in our century is well known. That some peoples have fallen under the yoke of oppression is rather generally recognized. All too often, however, this has been attributed to certain evil men – as, for example, Adolf Hitler and Joseph Stalin – and not to the more basic development. When this latter character is recognized, it should be clear that the task is to bring governments under the law. It is, or should be, the pressing issue of our times. There has been much talk in recent years in the United States of the need to restore law and order. Undoubtedly, there is such a need. It is important that citizens obey the law that order may prevail. But if it is only the inhabitants who obey the law, their obedience will quite often simply aid the establishment of tyranny. Those who govern must also obey the law, the law for governments. All governments are subject to law – the natural law. Beyond that, they may have their particular constitutions which establish the laws for those who govern. Rigorous adherence to these is necessary for government to be limited so that the citizenry may be free.

IDEAS ON LIBERTY

Limited Government

THE POWERS not delegated to the United States by the Constitution, nor prohibited by it to the states, are reserved to the states respectively or to the people.

United States Constitution, Tenth Amendment

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The inherent weakness of PRICE COLLUSION

D. T. ARMENTANO

THE FOLLOWING article is a brief explanation of some of the economic factors that appear to make price-fixing agreements between firms difficult to sustain, even in the absence of direct legal prohibition. The widely-held presumption among economists for some time has been that price conspiracies would be common in the American business system without antitrust legislation. The intent of the following discussion is to challenge such a presumption and suggest, instead, that there are diverse economic factors which would tend at all times to limit the success, and hence the significance, of price-fixing agreements in a free market. It is to be assumed that the firms under discussion here want to fix prices at more than competitive rates; what is being challenged is their collective ability to effectuate such a situation.

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Substitutes

The responsiveness of buyers to price changes is of crucial importance when considering the potential effectiveness of price-fixing agreements. If, for example, the commodity to be price-fixed has few good substitutes, an increase in its price may increase total revenues of the conspiracy and make price collusion financially rewarding, at least in the short run. But if, as more often is the case, there is a plentiful array of goods that might be substituted for the commodity that is being price-fixed, the higher fixed price may push marginal buyers to the cheaper substitutes, and thus lower total conspiracy revenues.

This consequence encourages firms to break the agreement to maintain a uniform price since the agreement does not, apparently, work in their interests. Certainly some firms will be *relatively* worse off with regards to substitute competition than others, and would be

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the first to feel the pinch of a revenue squeeze, and the first to consider a policy of selective price reductions. Thus, the threat of substitute competition may make price conspiracy difficult to form in the first place or lead to competitive price reductions that break the conspiracy apart.

Changes in Demand

A slight, even temporary reduction in demand for the price-fixed commodity may break apart the price agreement; recession is the natural enemy of successful price collusion. A decrease in demand at fixed prices will curb sales, and the temptation to ease the decline with a price reduction will be strong, especially for any low-profit firm involved. Since all firms differ in financial strength, and in their willingness to "ride out" a demand decline, there must be such temptations and such producers. When the relatively weaker firms cut price in an attempt to increase or maintain sales, the formal price-fixing agreements tumble.

Output Agreements

Firms that agree to fix prices also agree to some marketing arrangement. Somehow, particular firms must be selected to "get" particular "jobs," or a particular percentage of industry output. This part of the conspiracy is crucial since it must produce proper revenues to all firms involved else one or more of the conspirators will "chisel" price to steal orders. But these market-share arrangements are all but impossible to sustain for any extended period of time. Will the present market shares be maintained and for how long? What arrangements will exist for altering the status quo? Will a smaller firm attempt to cut the fixed price when it feels that its alloted share or territory is too restrictive, and no operational procedures for change exist? And what about *new* firms attracted to the market by the higher than competitive prices? By definition, they have no allotted outputs or selling instructions; will they be content to just take a slice of the existing action? But which of the existing sellers will give up sales to make room for the newcomer? The tendency of output restrictions is to frustrate all aggressive sellers and attract new producers, and thus to weaken and eventually break apart price-fixing agreements.

Costs

Assume a (manufacturing) firm *A* whose production and selling costs – on the average – decline as output increases. As almost every

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businessman realizes, there are "economies" associated with larger outputs; "spreading the overhead" and purchasing supplies in larger quantities tend to lower average costs per unit of output, and make larger outputs cheaper to produce and sell than smaller outputs. The significant point for this discussion is that firms that *restrict* outputs as part of a price conspiracy invariably *raise* their average costs per unit. Hence, *profits* will decline unless the extra revenue associated with the conspiracy exceeds the extra costs associated with the output restriction.

This important factor must surely make firms hesitant to join such restrictive agreements. Smaller firms especially, will be anxious to increase — not decrease — output, in order to enjoy the economies associated with larger scale enterprise. To compete with larger, more efficient firms in the future may make this output expansion mandatory. In conclusion, price-fixing and output agreements are difficult to conclude when firms find it advantageous to increase, not decrease, their sales.

Imports

As long as international markets are free (and it is within our power to lower our duties and tariffs to zero on all goods), a domestic price-fixing conspiracy appears limited by foreign competition. When foreign goods are price competitive, domestic price-fixing agreements are inherently unstable. A world-wide conspiracy is possible, but such arrangements have only existed and functioned successfully in the past with active *governmental* support.

Honesty and Trust

Of course, honesty and trust between the firms to a price conspiracy is absolutely crucial to its successful operation. If one of the conspirators thinks, or is lead to think, that anyone else is not living up to the price-output agreements (and they will have to *police* their own agreements), then price cutting is likely. And since it is hard to turn down old customers and their price requests, and difficult not to discount from book price when demand lags, and since all firms know this, the *suspicion* of price cutting will always be strong. Since firms don't trust each other in open competition, it is difficult to understand why they should suddenly trust each other in price conspiracy.

Buyer Power

As a final point, some assumption concerning the market power of the buyers is necessary to understand price collusion. The buy-

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ers must, obviously, have a relatively weak bargaining position compared to that of the selling conspiracy. If buyers are large firms that can threaten to make the price-fixed item or import it, or can use reciprocal agreements to the detriment of the price conspirators, then successful price conspiracy certainly becomes more difficult. It is hard to imagine Sears, DuPont, American Can, or any of America's industrial giants being the victim of price conspiracy in *their* purchasing markets.

Summary and Conclusions

In summation, price-fixing agreements appear unstable or unworkable when substitute competition is important, demand is falling, large producers are not party to the conspiracy, production quotas are to be agreed upon, larger outputs are cheaper per unit than smaller outputs, imports are an important part of market competition, mutual distrust and suspicion abound, and where buyers are in a position to bargain. Any or all of these factors might be enough to prevent successful price-fixing. Since almost all free markets, at one time or another, display these conditions, it appears reasonable to conclude that successful price collusion would be of negligible proportions, even without antitrust legislation.

Finally, it might be important to note that the record of many price-fixing cases prosecuted under our Sherman Antitrust Act has revealed a conspicuous lack of price-fixing success. With few exceptions, the prices have *not* been really fixed and have *not* been uniform for any substantial period of time; the evidence indicates that the agreements have broken down with almost monotonous regularity. Firms have been convicted for *having* a price-fixing agreement or *"tampering* with price structures" or *agreeing* to charge the same price, but rarely, if ever, for having accomplished successful price collusion. Thus, much of the factual and empirical evidence concerning price collusion appears to bear out the general correctness of the theories examined in this paper.

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Intervention leads to TOTAL CONTROL

GUSTAVO R. VELASCO

THE CENTRAL PROBLEM of our time is the economic organization of society. It is not necessary to adhere to historical materialism in order to recognize this or to realize, as well, that upon the manner in which society solves this problem depends the resolution of many others which today appear to be insoluble, such as the discovery of a way to overcome and transcend present nationalisms, the establishment of peaceful conditions in the world, and the utilization for constructive ends of the latest wonderful discoveries of science. Throughout the course of history we find various types of economic structures; however, humanity cannot, at a given moment, choose an economic system in the same way as a man with unlimited time or money might pick one of the trips offered by a tourist agency. The only alternative that exists for a serious thinker today is that between a free economy and a controlled economy.[1]

But is there no third road? Is it not intolerable to attempt to push us into one or the other pigeonhole, that of supporters of economic freedom or of believers in state control? The purpose of the present work is to submit this widely-held belief in a "middle way" to a critical examination.

The name of the third road is interventionism. Its practical im-

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[1] Syndicalism, with its variant, corporativism, cannot be taken seriously nor has either passed beyond mere words. Whoever believes that I reject them peremptorily may consult, among others, the confutation of the eminent German economist, Wilhelm Röpke, in his book, *The Social Crisis of Our Time.*

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portance derives from the fact that in Mexico as in the United States and in those European countries where debate is still possible, there are many people who reject communism, sometimes even with horror because of its excesses and persecutions, but who at the same time, deluded by a persistent and insidious propaganda, are unwilling to declare themselves in favor of capitalism, which they believe to be the cause of poverty, or of crises, or of social injustice, or an order inferior from an ethical point of view. Whatever truth there may be in these strictures, and notwithstanding the fact that I believe each one of them to be the result of misinterpretation or of stark ignorance both of the facts and of economic theory, this is clearly not the occasion to expose and refute them. I would rather inquire into what lies behind such broad but vague labels as "capitalism" or "socialism" and examine and evaluate the essential characteristics of each system.

Characteristics of Capitalism

It will be found, for example, that capitalism is characterized by the existence of the following institutions:

1. freedom of enterprise, that is, freedom to engage in the work, activity, or business desired, to develop it and to reap the benefits which may result therefrom, as well as to suffer the losses which it may produce;

2. private ownership, not only of consumer goods, but also of natural resources, capital, and productive goods;

3. competition;

4. a free market, with freedom of choice by the consumers, freedom to make any deal, and a price system.

On the other hand, what distinguishes socialism and communism is centralized control of the means of production in the hands of the state. The essential thing is that, ultimately, under socialism only one will decides. This demonstrates its ineradicably dictatorial character, the inanity of attempts to combine socialism with free competition and the price system, and the confusion of those people who imagine that a planned economy is compatible with liberty and democracy.[2] As a

[2] Socialism has attracted so many well-intentioned souls who sincerely abhor the fatal consequences which I point out, that my use of the two terms "socialism" and "communism" as interchangeable cannot help provoking an indignant protest. I admit that there exist differences between the two systems, the principal ones being (a) one of scope: social ism would nationalize only basic industries; for communism, in principle, there are no limits to nationalization; (b) another of method: socialism trusts to a gradual and peaceful process; communism believes in revolutionary and violent

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result, every one of the institutions listed above will vanish under socialism, leaving us instead with bureaucrats and policemen behind each street corner, if not inside our very homes, as in George Orwell's novel, *1984*.

An Attempt to Clarify

Once the discussion is undertaken on this more concrete ground, it will gain in clarity and objectivity. When it is realized that planned economy implies that we may be directed to do any work, if necessary as forced labor; that we can be deprived of all right to property; that all of us will become public employees; and that we may even be forbidden to decide what we shall eat, I am sure that believers in this system will be much fewer and that there will be a large number of men resolved to defend the system of economic freedom which has lifted great parts of humanity out of the misery in which they lived until the eighteenth century. Even so, the complexity of modern life, the difficulty presented by economic problems – especially those provoked by a third of a century of mistaken policies (since the First World War and especially since the Great Depression) – the fact that not everyone can analyze them and apply or follow the reasoning of economic theory, and other circumstances to which I shall refer later, leave more than one opportunity for the appearance and espousal of interventionist theories. In fact, in the dispute between the two opposing systems of liberty and regimentation, it is interventionism that has gained ground.

Unlike capitalism and communism, which are well-defined forms of organization readily distinguishable from each other, interventionism does not constitute a third structure different from these two. Interventionism does not seek to destroy the fundamental institutions of a free economy or to displace it. Neither does it have as a declared purpose the establishment of centralized direction of the means of production. Its object is a combination, a solu-

action; (c) finally, socialism would like to proceed in accordance with accepted standards of morality and preserve freedom, especially civil and political freedom, and democracy; communism rejects traditional morality, and although it speaks, for tactical reasons, of "true liberty" and "popular democracy," it is fundamentally antiliberal and antidemocratic.

These differences are secondary and are not sufficient to obscure the main question, which is that of the location of control over economic life. Moreover, the last difference, the most important, is no more than a pious hope. The road followed by England, despite the extremely strong liberal tradition of its people and the fact that it has not passed beyond the initial stages of socialization proves this quite conclusively.

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tion intermediate between capitalism and communism, in which the disadvantages and abuses of the former would be eliminated without falling into the evils and pernicious consequences of the latter. For this purpose, liberty is restricted and all the resources of the state are put into play, with the threat or the ultimate application of that power which it alone can wield, that is, coercion and violence. Since interventionism and socialism are in agreement insofar as both criticize a free economy, what characterizes and identifies the former is the feature which I have just noted and from which it derives its name: the intervention by the state, the utilization of its apparatus and power in all cases where the functioning of the system of freedom produces a result different from that which the proponents of interventionism consider ethical or desirable.

What a noble purpose! What a neat solution! To preserve the advantages of individual initiative without falling into any of the dangers of collectivism. To couple the energies of society and the unity of the state, and in one single harmonious effort, to attain justice, social peace, and prosperity. It should not be surprising that this beautiful utopia has seduced generous and enlightened minds from the remotest times. In fact, although there are some who present it as the latest novelty, interventionism is as old as history. In the first written legislative compilation which has been preserved, the Code of Hammurabi, we find laws which fix prices; and this form of intervention, together with innumerable others, persisted in Egypt, China, Greece, Rome, the Middle Ages, the Renaissance, the Mercantile Age, and the French Revolution, and emerges in our day with greater pretensions than ever.

The Market in Operation

A complete examination of interventionism, which does not claim to be a substitute for the market system but simply a corrective measure, should start with a study of the operation of the free market. In this way it would be possible to determine the accuracy of the two central arguments of the critics of the free market: the assertion, on the one hand, that even if the system of economic freedom does tend toward the optimum application of productive resources, and therefore toward the largest possible output, conditions never really correspond to the basic assumptions of laissez-faire theory, and so the latter is, to that extent, limited and deficient; and the emphasis, on the other hand, upon those results of

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the free play of individual interests which are deemed undesirable. But let us grant those points to the opposing side, despite the fact that some are inaccurate and others are greatly exaggerated. In any case, the conclusion which rightly follows when one finds an imperfection in the working of the free market is the need of improving it and of achieving its efficient operation, not of disorganizing and destroying it. Since interventionism bases all its claims on its alleged ability to accomplish better results than a free economy, let us investigate how it operates in its turn and, more concretely, whether it can attain the aims which the governments and the persons who resort to it declare that they pursue.

In the economic field, these aims cannot but be greater abundance for the greatest possible number of the inhabitants of a country. In other words, the primary aim of interventionism is not different from that of capitalism or even of communism.[3]

[3] In all systems, in addition to economic objectives, other ends are sought of a varied nature, moral humanitarian, nationalistic, and so forth. Nobody doubts that many can be attained by means of official action. But it is equally clear that from the economic viewpoint these measures represent an expenditure, not an income. Economic science neither approves nor disapproves of them. It confines itself to throwing light upon their true nature.

In case there is any doubt about this, it is sufficient to call attention to the name with which the partisans of the latest brand of interventionism have baptized their creation: they call it the "welfare state," that is, a political body which has as its objective the welfare of the masses. And the welfare which is promised is, in the first place, economic welfare.

Classes of Intervention

Although official intervention takes extremely varied forms, analysis permits us to classify them into three groups: (1) measures whose principal object is to divert the factors of production from the channels which they would have entered in a free market, toward others preferred by their authors: (2) measures whose object is to modify the data which are a result of the market; (3) measures whose object is to change the distribution of production and, in general, of wealth.

Intervention of the first class can be either direct (prohibition of certain industries, decrees to the effect that enough factories or firms exist in certain lines, production quotas) or indirect (protective tariffs, subsidies). In order to modify the indications of the market, recourse is had to price-fixing (only for the sake of brevity do I use this word, since

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the figures selected as a result of the decision of an entity with compulsory force cannot be considered as prices, which, by definition, are the result of the interaction of individuals in the market). In practice we find both maximum prices (rents, consumer goods) and minimum prices (parity prices for certain agricultural products, salaries), and we observe that sometimes the government decrees them and imposes them directly, while on other occasions it permits this to be done by private groups (legalized monopolies, labor unions), to which it lends the support of its authority, or permits them the use of physical force and violence (strikes, shutdowns of plants and offices). In the three types of measures which I have mentioned, recourse is had to the fiscal powers of the government; nevertheless, it is in the case of the third group of measures that this kind of official activity (provision of free services, progressive income and inheritance taxes) is resorted to most frequently.

Restriction Invariably Diminishes Production of Goods and Services

Based on this outline of the most frequent forms of interference, let us examine the results to be expected from each one. As I pointed out above, its operation, its yield, are the only criteria with which to judge the so-called third road in the economic field, for it is in precisely this respect that it presents itself as superior to the capitalistic system which it criticizes. In other words, what interventionism has to prove is that it can increase production, raise the general standard of living, and consequently assure greater welfare to all the population.

The deflection of production into channels different from those which it would enter in an unhampered market is so obviously restrictive that it is no exaggeration to speak of restrictionism when designating the totality of measures which the state employs for this purpose. In every case it prohibits a certain kind of production (in the broadest sense of the word and including, therefore, commerce, personal services, banking and transportation), or certain procedures are forbidden, or are made more difficult or more expensive. It could be stated *a priori* that, given the tendency of the free market to the optimum use of the factors of production and to the maximum satisfaction of the most urgent human needs, these shackles can result only in a deterioration of the productive process and in impoverishment of the community. A detailed examination of any one of the restric-

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tive devices will fully corroborate this.

Let us suppose a restriction of the number of factories dedicated to a certain branch of production or of the quantity of articles which they can manufacture. Let us suppose also that this restriction is complied with or is enforced. Naturally, the price of the product concerned will go up; the profits derived from the industry in question will increase. Those who participate in it, salaried workers, investors, entrepreneurs, will be better off from receiving their respective incomes more surely or even in greater proportion than before. It would seem, therefore, that the measure is beneficial in general and that it should be approved.

Gains Offset by Losses

Whoever believes this suffers from evident myopia. When the consumers find themselves obliged to pay more for the restricted item, they will automatically have less to spend for other articles. Consequently, what the interested parties in industry A gain, those who depend on industries B, C, and D will lose. No net advantage whatsoever exists for society. On the contrary, and since wealth is created through expending a certain quantity of the factors of production and since restriction of that quantity cannot increase but only diminish the amount of goods produced, from the general viewpoint the result is a net loss, equal in amount to that of the production which was prevented. One group gained, but at the expense of the community. Taken as a whole, the latter is poorer and not richer. Interventionism not only did not attain its objective, but produced a result exactly opposite to the one it sought.

Even easier is the demonstration in the case of price fixing, a demonstration which has been given so many times that one feels reluctant to take up the reader's time with it. The function of prices is to achieve a balance between supply and demand. When the government immobilizes them at a level lower than the one determined by the market, demand increases, since buyers will feel more inclined to acquire goods and since there will also be a great increase in the number of those who could not do so at the previous price, but who find it possible at the fixed price. If instead, prices are set at levels higher than those established on the market, it will be the sellers who will flock to it, and supply will exceed demand. In either instance, the market fails to fulfill its functions; a new principle for the distribution of available goods becomes indispensable,

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and queues, rationing, and the black market appear in the one case, and overproduction and chronic unemployment in the other. This is due to the fact that in addition to allocating the articles already produced, prices fill a mediate but even more important function, that of guiding and directing production.

Prices are signals, indications, to producers, of the fields in which there exists an unsatisfied demand and in which production should therefore be intensified; and of those others where supply cannot be wholly absorbed and in which future production should consequently be curtailed. Producers respond to these stimuli to the fullest extent possible in each set of circumstances, because of their desire to obtain profits and to avoid losses. And the result for society is the employment of the factors of production in those directions which will satisfy the most important and urgent needs of the consumers.[4]

[4] Obviously, in accordance with the scale of values of the consumers themselves. To this it is objected that the market directs production toward the fields which bring highest profits and not toward those most necessary to society or which are "truly useful." The fault does not lie with the market system, but with the desires of men. What is needed, therefore, is to instruct and convince the latter so that they will not want things of scant "social utility" (such as chewing gum or bullfights) or which are even harmful or immoral (such as alcoholic beverages or the services of cabaret girls and prostitutes). But whoever criticizes a free economy on this account and shields himself behind supposedly economic arguments in order to impose his personal preferences, reveals very little democratic spirit and a great deal of superiority and paternalism.

Changing the Signals

Let us consider now what happens in a system in which the signals have ceased to function truthfully, that is to say, in which the government orders buyers and sellers to abide by certain amounts whose only likeness to prices lies in the fact that they are expressed in legal tender currency. If the official figure is lower than the market price, marginal producers – those whose costs are highest – will lose money and will be eliminated. The other producers will continue their activities but will not increase their investments; on the contrary, they will divert to other ends the nonspecific factors at their disposal and will even retire completely as soon as they can do so, in order to engage in the production of goods which offer greater profits. As a result, the supply of the controlled commodity, the more important since it is generally a staple of life, will diminish instead of increasing as the government desired.

Exactly the same thing will happen, except in the opposite direc-

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tion, in the case of minimum prices or salaries. When the authorities discover that not all the farmers who cultivate a certain crop can earn sufficient money to continue producing it, they set a parity price below which it may not descend. Now, the unsatisfactory former price was not capricious; there was a reason for it and this could only be an excess of supply or a lack of demand. The imposition of minimum prices perpetuates these conditions and prevents production from adjusting itself to consumption, by keeping marginal producers in business and by even attracting new producers who, if they had been confronted with a lower price, would have applied their resources to the production of different goods.

And so, with controlled prices, as with restrictive measures, the real result that is attained is exactly the opposite of the one sought by their proponents. The conditions that are created are not better, but worse, than those which existed prior to their establishment. Some groups may be benefited and enriched, but society as a whole loses and is impoverished.

Not Income, but Expense

I shall not attempt here to discuss the method of redistributing wealth represented by the inflationary and credit expansion policies followed by most contemporary governments. As for the other measures aimed at achieving a distribution different from that determined by the capitalistic order — for example, by organizing gratuitous or semi-gratuitous services (low-cost housing programs, socialized medical services — it is so obvious that they entail an expenditure rather than an income that when attempts are made in their defense the arguments revolve exclusively around the justice of providing them. In other words, the proponents of these measures avoid justifying them in the economic field, in which interventionism boasts of its power to win the argument and in which it is the purpose of this document to examine them. If we do so, it will be easy to verify that, since the state cannot provide anybody with anything which it has not previously, and more or less surreptitiously, taken away from him or which it does not take away from other producers, the net effect of its absorption of all kinds of activities is to transfer from the interested parties to the administration the power to decide and to spend.

On the whole, this must have less efficient results and yield a smaller return for the community, because to the less perfect satis-

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faction (always from the point of view of the consumer) of the needs which one wants to fill must be added the disturbances originated by politics and the complications, mistakes and immoralities of bureaucracy. Above all, the social resources available for these purposes do not increase just because the heavy body of the state is interposed between them and their use, but rather diminish through having to bear the high and ever-increasing cost of the services so deceptively called free.

Saving Discouraged

In general and independently, therefore, of the use to which the government puts the funds which it collects, there is no doubt but that taxation beyond certain limits discourages the accumulation of capital, as in the United States, or even has the opposite result of encouraging the dissipation and consumption of existing capital, as in England. Matters are, of course, much worse in the case of expropriations and confiscations, especially when they are not isolated and extraordinary acts, since they can only be compared in their effects to those cataclysms which paralyze even the will to reconstruct and after which recovery is as slow as it is painful.

Again, the failure of the ambitious interventionist program is confirmed; no country can make itself rich by taking away from some people in order to give to others and by terrorizing and demoralizing all of them. It is true that whoever cuts the cake – in this case, the state and, more concretely, professional politicians, their friends, and the groups which support them or which they favor – gets the best share; yet neither does the total distributed become greater nor is the general mass of the population benefited, but rather it becomes more impoverished by such distribution.

As a result of the foregoing, it can be stated with certainty that isolated interventionist measures do not produce wealth, but scarcity – not abundance, but poverty. This is not a value judgment; neither is it a case of condemning these measures because they limit freedom and lead to totalitarianism. In the field which belongs to economic science, that of showing us the consequence of our actions and of enabling us to behave consistently, it can be demonstrated that the results of state interventionism are contrary to the aims that it seeks and that from the point of view of those who want intervention – not from my point of view or in the opinion of the friends of capitalism – it ends in a situation which is worse than the one it set out to improve. In-

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terventionist policies must, therefore, result in failure and frustration, or else go on, extending both horizontally and vertically until they end in complete economic control and in socialism of the Nazi type.

Mushrooming Intervention

This course must offer great temptation to those who have embarked upon interventionist adventures and represents one of the greatest threats of such a policy. Upon observing that the maximum price fixed for milk, for example, causes this product to disappear from the market, let us fix the prices of other activities and commodities, such as pasteurization, milk containers, transportation. If production has been diverted to butter and cheese, let us fix their prices and limit the amount which can be made of them. If this does not produce the desired result either, let us freeze the salaries of such persons as may be engaged in the milk industry or even of those connected with it, and go a step further and prevent the producers by force from abandoning this field. If the supply of milk grows less every day, let us follow the internal logic of interventionism and take the ultimate step: let us control everything, without exception. Then we shall have eliminated the market completely, we shall find ourselves at the opposite extreme from where we started, and we shall have established a system which is indistinguishable from the communism which we began by repudiating.

There is no doubt, therefore, that interventionism constitutes an extremely efficacious instrument in the struggle begun some time ago for the purpose of destroying the liberal society in which, in spite of everything, we still live. In the first place, it lends invaluable support to those who are working to establish communism but who realize that they would meet very strong opposition if they openly advocate that form of economic organization. Perhaps even more serious is the fact that interventionism complicates and aggravates economic problems to such a degree that the majority of people, among them the majority of the classes which previously performed the most important of directive functions, that of supplying the ideas which guide society, are bewildered and perplexed and even come to believe that these problems admit of no perfect solution. But does not this situation cause surprise?

If, in the field of ideas, the failures of interventionism are indisputable, if not only the bankruptcy of this policy but also its

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catastrophic effects and the danger which it presents are visible on all sides, especially in those countries which have carried it the furthest, why does it not pass forever into oblivion, ashamed of the confusion which it has wrought and of the countless ills which it has brought upon humanity? The explanation is complicated, but in my opinion it should be attempted because it will help to dissipate the mental fog which has descended upon a great number of our fellow men and left them irresolute and deprived of the will to respond to the challenge of our times.

Reasons for Confusion

Let me list briefly some of the reasons for this:

(a) Man is by temperament a compromiser, especially when confronted with matters which he does not understand and which he thinks do not affect him directly. The majority believes that the debate concerns only a mythical class, "the capitalist" or "the bankers," and the government. What is more natural than to think that each one must be partly right and that as between the freedom demanded by the former and the complete control which everyone instinctively fears, the solution must lie in the golden mean of interventionism?

(b) Both in economic matters and in general, without the aid of science our perception and interpretation of phenomena are rough and misleading. Scientific knowledge aims precisely at broadening our field of vision and our understanding and making them more accurate. But just as an ignorant person does not observe that the world is round, so also in economic matters he sees no further than the near and immediate effects of an act or a policy. The masses are incapable of understanding the secondary consequences which those acts or policies generate in time or space; nor will they follow the long and rather complicated reasoning necessary to explain them. Since interventionist measures seem at first to be successful and may benefit special groups, a man without economic knowledge needs no further proof to be convinced of their efficacy.

(c) In the economic process we all have a dual personality: on the one hand, we are producers; on the other, consumers. Although frequently and with a notorious lack of logic, government intervention is asked against consumers when prices decrease, and protests are made and official aid invoked against producers when prices increase, the predominant interest of the majority of people

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is their interest as producers. This is more direct and specialized, since the interests that consumers have in common are diffuse and lend themselves but little to the organization of groups which would further them. And thus we see that in the democratic countries the voters cast their ballots in favor of their interests as producers and against the general welfare, which would usually coincide with their interest as consumers.

Interventionism Is Unstable

Whether the explanations which I put forward are accepted or whether other causes are found for the regrettable blindness of our contemporaries in face of the disaster of interventionism, I repeat that this system has won ground since the First World War opened the door to it. Is it to be anticipated that it will continue, as it has up to now, to extend and intensify itself more all the time?

It is not to be believed. Interventionism has lived off the reserves accumulated under capitalism and thus has succeeded in hiding to some extent its excesses; but these reserves have already been dissipated in some countries, while in others, their exhaustion is only a question of time. Interventionism is essentially unstable as I believe I have demonstrated, because it is not a real third system but a makeshift which fluctuates between the capitalism from which it starts and the communism which it does not wish to reach. Consequently, either humanity has a lucid moment and holds back at the edge of the abyss, or else it plunges into it and into the new dark age of which a terrifying prelude has been furnished us by Hitler's Germany and Stalin's Russia.

What cannot be doubted is the danger in which we live. Let us not forget that interventionism constitutes a seeming, but in fact self-defeating and suicidal solution which does not raise the standard of living but lowers it, which does not create wealth but consumes it. Its basic philosophy is mistaken and pernicious. Like the collectivism to which it believes it is raising an obstacle, it mistrusts the individual and his innate capabilities, and seeks salvation in an entity supposedly free from his limitations and weaknesses, which would be outside of society and superior to it. In practice, interventionism is nothing but statism. Moreover, by attributing to the state an omniscience and an omnipotence which nothing justifies – neither theoretical resasoning nor historical experience – interventionism professes a true idolatry of the state

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and is even inferior in this aspect to communism, which at least in theory does not exalt the state and even speaks, deludedly, of its fading away.

In the same way, interventionism is inimical to individual liberty. It is not a question simply of the fact that its specific means of action are orders and prohibitions and that it necessarily implies a reduction of liberty and an increase in compulsion. The evil stems from a much deeper source, from the fact that contrarily to the naive thesis that it is possible to separate what is economic from what is not, liberty is indivisible. Since there exist no purely economic motivations which can be separated from the other objectives which we seek in life, any diminution in the sphere of economic liberty results in a loss of freedom in other fields. In other words, there is no economic sector of life inferior to others and clearly marked off from them, in which it would be possible for the state to project itself without resultant ill effects upon personal liberty. All intervention in the means implies an intervention in the ends. Automatically, the decision as to what objectives we must fulfill and as to the relative rank of the values which they tend to realize, is shifted to a great extent from the individual to the state, until it is completely absorbed by the latter in communism, which for this reason, is inescapably totalitarian.

The Greatest Danger: The Statification of Life

What can be surprising, after the foregoing, about the necessary results, observable everywhere, of statism and of the abandonment of liberty? The state grows and hypertrophies until it assumes the proportions of a Leviathan or a Behemoth. Instead of being a center of union and a representative of the general interest, it becomes a cause of conflict and an instrument of private appetites upon which each group brings pressure or which it is anxious to dominate in order to apply governmental compulsion and strength for its own benefit. Political institutions become deformed and corrupt, because, having been conceived for other purposes and in a different atmosphere, they prove inadequate in a state which is impatient of restrictions and hampered by law. Not only in public life and in the administration does immorality increase as a result of the power which the organs of the state acquire over economic matters, but the people as a whole become accustomed to the phenomena which accompany interventionism: smuggling, bribery,

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black market, governmental favors; they cease to believe in self-reliance and lose their sense of responsibility, seeking prosperity at the expense of others and changing from citizens to subjects and from free men to wards of the government.

The problem of interventionism is not, as may be seen, purely economic, but much more general. Although its political and social repercussions are undeniably of the utmost importance, I continue to believe that it is only after subjecting it to economic analysis that one can pass a decisive judgment on it. And I would conclude, with Ortega y Gasset: "This is the greatest danger which threatens civilization today: the statification of life, state interventionism, the absorption of all social spontaneity which, in the final instance, sustains, nurtures, and impels human destinies."[5]

[5] *The Revolt of the Masses.* Complete Works (in Spanish). Book IV, page 225.

IDEAS ON LIBERTY

A Futile Life

LIFE IS INFINITELY less important than freedom. A free man has a value to himself and perhaps to his time; a ward of the state is useless to himself – useful only as so many foot-pounds of energy serving those who manage to set themselves above him. A people which has lost its freedom might better be dead, for it has no importance in the scheme of things except as an evil power behind a dictator. In our hearts we all despise the man who wishes the state to take care of him, who would not rather live meagerly as he pleases than suffer a fat and regimented existence. Those who are not willing to sacrifice their lives for their liberty have never been worth saving.

MAXWELL ANDERSON, *The Guaranteed Life*

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THE FLIGHT FROM REALITY

THE TROUBLE with the modern collectivistic liberal is that he has forgotten to study the nature of man. This is the sum and substance, in capsule, of Clarence B. Carson's 548-page book, *The Flight from Reality* (Foundation for Economic Education, $5.00 cloth; $2.50 paperback).

Since the origins of our deep-seated malaise can be put in a sentence, one might suppose that Dr. Carson, who teaches American history at Grove City College in Pennsylvania, could have covered his subject in fewer pages. Alas, the "flight from reality" has affected so many millions of people and taken such incredibliy protean forms that Dr. Carson has barely scratched the surface. He has had to deal with religion, philosophy, law, literature, journalism, history, economics, psychology – you name it and it's here. It is obvious that each line of investigation could have produced a whole book in itself, so, actually, Dr. Carson has been most succinct.

Sticking to Dr. Carson's fundamental message, variants of it are spotted in epigrammatic form throughout his long text. "Men," he says at one point, "have been taught to take their eyes away from the nature of things and to focus upon the purported object or end for which an act has been performed. They have been taught that it is the motive that counts, not the consequences of the act. . . ." At another point he condemns our thinkers and artists for ignoring "the principles of human action, the essentials of artistic or economic production, human nature, and the conditions of liberty." In another passage he chastises our "reformers" for imagining they are "gods or demigods who could create a reality out of their dreams of it. It turns out that they were only men. It is small wonder that those who feel

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deepest should turn upon man, then, and describe him as so contemptible."

Philosophical Relativism

The first "reality" to be deserted in point of time was "the Western tradition of philosophy" which ever since Plato and Aristotle had accepted the "central insight" that "there is an enduring, even an eternal, reality." Commenting on our abandonment of our Western heritage, Dr. Carson observes that if we do not believe that enduring principles can be discovered, there is little need for education. Any man's guess is as good as the next man's. The lesson of history is that history has no lessons. Good and bad become hopelessly relative; a society can make anything good by simple majority vote.

Dr. Carson traces the shambles that "relativity" has made of all of our so-called disciplines with a keen eye for the ridiculous. If there is no enduring truth, how can there be any science? Why should we have a Constitution? Why not legislate utopia tomorrow? Why bother with the subject of economics, which "has to do with the frugal management of time, energy, resources, and materials so as to bring about the greatest increase in the supply of the goods and services most desired"? "Melioristic economics" assumes plenty, not scarcity — and where there is "plenty" to be grabbed, the politician who seizes it for redistribution must, for the short run at least, seem very much like a "god or demigod." The trouble is that the "short run" considerations presuppose that a nation can live by consuming its capital, and this brings us back to "reality" with a thud.

War on the Poor

The reformer's "flight from reality" in economics is part and parcel of the "war on the poor" that has been covered by Dr. Carson in another notable book as well as in chapters of the present work. People are hungry, so the reformer begins by legislating crop restrictions. There is unemployment, so we have minimum wage laws that keep you from hiring household help at a rate that you can afford to pay. Goods on the merchants' shelves come at high prices, so why not have price supports and make the goods unavailable to those who cannot afford them? If you lack purchasing power, let the government inflate the currency. This will increase the supply of money, not the supply of goods, so you'll not get anything more for having had the worth of your dollar cut by 30 per cent in ten years. It's all as crazy as Dr. Carson describes it. But the

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THE FLIGHT FROM REALITY

By CLARENCE B. CARSON
568 pages
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The book is somewhat updated from the series carried earlier in *The Freeman*. These are samplings of reader responses:

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Square Deal, the New Deal, the Fair Deal, the New Frontier, and the Great Society were all dedicated to the idea that government intervention in behalf of augmenting craziness would raise everybody's standard of living. If we hadn't been blessed with technologists who could find ways of cutting the cost of making and distributing goods in spite of crop restrictions, minimum wage laws, and inflation, we would have been dead of "meliorism" long ago.

One of Dr. Carson's best chapters is the one called "The Flight from the Constitution." The Constitution protects "speech, the press, and religion" absolutely. But "life, liberty, and property" can be taken away by "due process of law." There are two methods of taking property that are sanctioned by the Constitution: by taxation and by exercising the right of eminent domain. The taxing power is limited by the requirement that taxes be levied for "the common defense and general welfare, and that some of them be uniform throughout the United States." As for "eminent domain," it can only be exercised when "just compensation is paid" for something taken for "public use."

Departures from the Constitution

All of this is, or should be, very clear. But Dr. Carson notices that the power to regulate commerce is used to take property from people. The minimum wage law is confiscatory, a violation of the due process clause of the Constitution. The Sixteenth Amendment gives Congress the power to "lay and collect taxes on incomes from whatever source derived, without apportionment among the several States, and without regard to any census or enumeration."

But this does not "authorize" a graduated income tax, which would seemingly be outlawed by the Constitutional guarantee of "equal protection of the laws." If spinster Vivien Kellems has a good Constitutional point when she argues that she is being denied "equal protection" when the Treasury taxes her at a higher rate than it taxes married women, why haven't we all a valid case against the government when it distinguishes between high bracket dollars and low bracket dollars? The millionaire doesn't get the same protection for his dollar of income that is accorded to less fortunate mortals. Nobody cares very much about the millionaires, but it happens to be their Constitution, too. And how about the nineteen-year-old who is drafted by the military and sent to fight in an undeclared war? His body is seized, and he is compelled to labor at a task which he has not freely chosen.

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This is "slavery" by any definition, and it happens despite the Thirteenth Amendment, which specifically prohibits "involuntary servitude, except for the commission of a crime."

Conflict Instigated

By assuming the right to seize property and redistribute it despite the Constitutional guarantees about "due process" and "equal protection of the laws," the government has turned the U.S. into a "class society." Men have been set against men, and groups against groups. As Dr. Carson says, a man may be a husband, a father, a son, a deacon in his church, a Mason, a golfer, a property owner, a debtor, a creditor, a consumer, a seller, a hunter, and an army veteran, but if he thinks of himself as "labor" he will not be acting as a "whole man." By "politicalizing" the struggle for income, society is not only cut apart, it is rendered impotent.

The Flight from Reality is such a wide-ranging book that reviewing it is like reviewing a whole literature. I feel that I have done it only the most cursory sort of justice. I wish I could find some way of persuading every college freshman to read it, and to throw its contents in the face of his professors in economics, law, literature, history, and philosophy for the four years of his undergraduate life.

▶ THE HISTORICAL SETTING OF THE AUSTRIAN SCHOOL OF ECONOMICS by Ludwig von Mises (New Rochelle, New York: Arlington House, 1969, 47 pp., $1)

Reviewed by Tommy W. Rogers

THE IMPORTANCE of this book is not to be measured by its size. Von Mises ranges far beyond a chronological account of the development of important men and works in the Austrian School; he goes beyond an era history – though he provides this in revealing fashion – showing the organizational support, social influence, and status of German and Austrian universities and their interaction with the social structure. He touches on the study and uses of philosophy, epistemology, and history as they relate to liberty and its corollary requirements of openness to free enterprise and the free flow of ideas. We have here an enlightening venture into the sociology of knowledge, or the social context in which ideas develop and do or do not take root.

What was to become known as the Austrian School can be traced to the publication of Karl Menger's *Grundsatze der Volkswirt-*

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schaftslehre in 1871. His two earliest followers were Eugen von Böhm-Bawerk and Friedrich von Wieser. They, and some younger men who had been taught by Wieser, contributed to the economic theory of marginal utility. The pejorative term "Austrian School" was applied only when their antagonism to the German historical school came into the open in the 1880's. Even in Austrian universities (for reasons which Mises explains) those whom the world styled the "Austrian economists" were somewhat reluctantly tolerated outcasts.

The hostility that the teachings of classical economic theory received on the continent was primarily caused by political predispositions. Political economy as developed by several generations of English thinkers (of whom Adam Smith, David Ricardo, Thomas R. Malthus, and J. S. Mill are representative) was the most exquisite outcome of the philosophy of the Enlightenment, containing the gist of the liberal doctrine that aimed at the establishment of representative government recognizing the equality of all individuals under law.

Most of the nineteenth century's progressive politicians who advocated representative government were guided by the optimistic illusion of democratic infallibility founded on a double faith in the goodness of man and his rational mind. The arguments brought forward by the small group of liberals known as the Austrian economists did not imply any reference to an alleged infallibility of majorities. The rationale of representative government, Mises points out, is not that majorities are God-like and infallible. "It is the intent to bring about by peaceful methods the ultimately unavoidable adjustment of the political system and the men operating its steering mechanism to the ideology of the majority." These true liberals recognized that the only economic system which assures a steadily progressive improvement in man's welfare can work only in an atmosphere of "undisturbed peace." They advocated government by the people's elected representatives because they took it for granted that only this system will lastingly preserve peace in domestic and foreign affairs.

Today, however, the reaction of "statism and socialism is sapping the foundations of Western civilization and well-being." "But," Mises adds, "truth persists and works, even if nobody is left to utter it."

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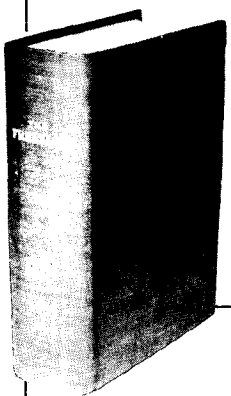

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